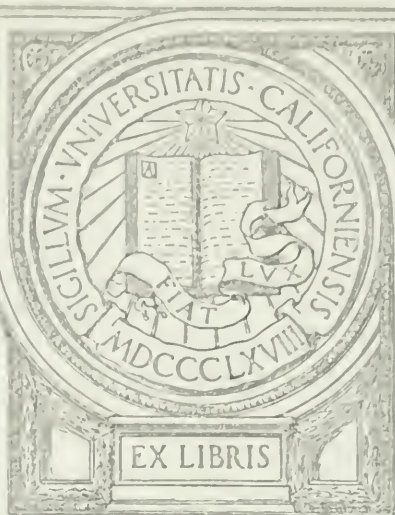


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INDUSTRIAL FREEDOM

BY

DAVID MACGREGOR MEANS

WITH AN INTRODUCTION BY
THE HON. DAVID A. WELLS



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INTRODUCTION.

OUR age is distinguished by the attention given to the condition of the poorer members of society. Vast sums have been devoted, both by individuals and by governments, to the alleviation of the sufferings of those who are unable to help themselves, and it might seem that this profuse benevolence would be sufficient to neutralize the evils of poverty. But the modern sensitiveness to inequalities of condition and opportunity is not quieted by such palliative measures. The enormous increase of wealth is believed to indicate something wrong in the existing principles of its distribution, and the world has had an infinite number of suggestions made to it for the improvement of its constitution. Some of these suggestions are wise and practical. They are made in the light of experience and with regard to the permanent conditions of human progress.

Other proposals are bolder, and assume that under changed circumstances human nature may

become something very different from what it has hitherto shown itself to be.

Most of these latter suggestions have the common aim of proposing to effect the desired changes by compulsory measures. They look to Government as the agent by which improvement is to be introduced, and to legislation as the means to be employed. They imply that by such instrumentalities greater equality in the distribution of wealth can be attained. They assume that without decreasing the aggregate production of mankind, the share now appropriated by the rich may be diminished, and that allotted to the poor may be enlarged. They refuse to be bound by the severe restraints prescribed by the experience of the race, because that experience has been obtained under the influence of militant passions. The great principle of human brotherhood is now becoming dominant, and the lessons derived from the days when hatred and malice governed human action are no longer applicable.

It is not to be denied that these proposals are attractive. The end to be attained is so desirable as to appeal to the best elements in our nature. It interests the benevolent members of the well-to-do classes, who feel that they can not altogether justify their possession of so large a

share of the good things of this life. Hence they give a certain countenance to many of the socialistic schemes for improving the condition of the poor. They are not prepared to estimate the tendencies or ultimate results of these schemes very critically, and they yield them a qualified support with the vague hope that somehow good may come out of them.

It is the aim of this essay to show that no good can come out of them. The author considers the existing methods of distributing the products of human activity by means of the wages system, and demonstrates that it tends to establish working people in a state of independence rather than subjection; to promote "industrial freedom," not to produce "industrial slavery." He shows how intimately the welfare of labourers is connected with the prosperity of their employers, and how the attempts to diminish the wealth of corporations may diminish the fund of capital out of which the wages of labourers are paid. He points out the dangers that arise from the misapplication and abuse of the taxing power, and indicates the peculiar evils to which such abuses will lead under our form of Government.

It is the general aim of socialists to take from the rich in order to give to the poor, but they sel-

dom advocate this direct redistribution. They propose to apply the increased taxes which they would impose on accumulated property, or the income derived therefrom, to all sorts of public enterprises. In other words, they would increase the number of persons in the pay of the Government, and the amount expended in public works, with the idea that labourers or poor people as a class will be benefited. But they overlook the fact, which is pointed out in this book, that the public revenue can be added to only by subtraction from private revenue, and that the impairment of private accumulation may reduce the fund applied to the payment of labourers more than the expenditure of Government can increase it. In this way the proposals of the socialists defeat themselves, and if carried out would injure the poor as a class. The expense of Government is a charge that the public must bear, but its limits are defined by experience, and the modern tendency to exceed them results in corruption and extravagance, which may in the first place be injurious to the rich, but which eventually causes suffering among the poor.

To turn aside after the ideals of the socialists is thus directly productive of injury to the general welfare. It is also indirectly prejudicial, because the very best element in our society, that

which is both conscientious and cultivated, is led to waste strength needed for important reforms. There are many reforms about which most people are agreed, but they can be accomplished only by the union of all public-spirited citizens. If these citizens lend their support to the measures of socialistic tendency, they can not expect to carry out conservative reforms. If they are not in accord as to their general line of political action the consequences may be disastrous for the country. Their efforts neutralize each other, and when honest men fall out, rogues get their own way. We have recently had a startling exhibition of the prevalence of Jacobinical doctrines among our demagogues, and of their popularity among our people. If such doctrines are to be overcome, it will be by means of the diffusion of such truths as are contained in this book, and those who are concerned for the future of our country will do well to read it and to let it influence their thought and action.

DAVID A. WELLS.

NORWICH, CONN., *September 1, 1897.*

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INDUSTRIAL FREEDOM.

CHAPTER I.

THE GRIEVANCE

IF we were to follow the complaints of the existing constitution of human society to their ultimate source, we should find them all embraced under the head of injustice. There are numberless specific evils, but in the end they can all be traced back to this fundamental ground and cause. It is not mere inequality of possessions that arouses discontent and indignation. Every one who thinks seriously of the matter sees that the natural endowments as well as the achievements of men differ so greatly as to make any absolute equality of rewards the height of injustice. To enforce such equality would be to put a premium on vice and incompetency. But the underlying feeling is that, after all such allowances are made, the differences in the distribution of the comforts and enjoyments of life are excessive and unjust. We find ourselves in

the possession of certain advantages, not simply material advantages, but advantages of education, of travel, of society, of culture, of the graces of life, which advantages are not possessed by numbers of our fellow-citizens whom we feel to be as deserving as ourselves. We believe them to be morally as good as we are, and perhaps not infrequently better. We see that they are endowed by Nature with equal or superior intellectual powers. They often work as hard as we do, and if we take into account the disagreeable conditions of their labour, the precariousness of their employment, and the constant proximity of want, their work may fairly be called, if not harder than ours, at least more unpleasant. On any comprehensible theory of justice it certainly seems that, unless we fare better than we deserve, they fare worse than they deserve. Our fathers appear to have accepted this dispensation without questioning it too particularly. They received their blessings as by the grace of the Almighty, and left the justice of his treatment of the poor with him. Possibly there was in this somewhat of the disposition of the Pharisee to be thankful over not being as other men are; but at all events this is not our attitude. So far from being thankful for our own favoured lot, we complain that it is too

favoured, and that others who are as good as we are do not share it.

As I have said, it is not so much the distribution of material things that causes our feeling. No doubt the fare of the masses of mankind is very plain, their clothing coarse, their shelter poor, their luxuries few. We live on a variety of choice meats and vegetables and fruits; they live on salt pork and cabbage and potatoes. We have constantly on our tables wines and other beverages which they have never tasted and will never taste. We carpet our houses, and warm them with open fires and furnaces; they have stoves and bare floors. We cover our bodies with delicate fabrics of wool and silk; they cover theirs with coarse cotton cloth and shoddy. It is idle to extend the list; we know that we have hundreds of pleasant things which they can not have or hope to have.

But in spite of our luxurious living and of their humble fare, we do not regard this inequality as the greatest of hardships. We have learned that the life is more than meat and the body than raiment. Food is nothing without appetite, and with appetite the coarsest fare is delicious. So long as the material conditions are such as to maintain the physical system in health, the rest is largely vanity. Many men and many women

have found themselves better and happier when they have lost their fortunes and been compelled to work; and if this can be true, the deprivation of luxuries implies no injustice in the nature of things. But we have come to take a broader view of man than as simply an animal to be well fed and groomed. We hold to the brotherhood of mankind, and recognise in every human being the existence of like capacities, the potentiality of affections and aspirations similar to our own. Happiness is conditioned on development, but development is conditioned on opportunity. The struggle for mere survival among the peoples of the earth is no longer so desperate as of old; but what shall we say of the struggle for development, for intellectual attainment, for moral refinement, for the expression of genius? We need not visit the country churchyard to find occasion to lament the "heart once pregnant with celestial fire." Never morning wears to evening but some such hearts do break, and his experience is limited who has not known many of whom he must say:

Chill penury repressed their noble rage,
And froze the genial current of their soul.

It is here that our sense of justice is sorely wounded. How anxiously we seek the most eminent doctors at the suspicion that disease

threatens our lives, even while we may admit that we could easily be spared! But our poor brother, whose life is the sole support of his family, must take it in his hands and run his risk of sickness. How tenderly we shield our children from the knowledge of what is vile and from the companionship of those who are corrupting, and seek to give them every possible advantage of pure and wholesome surroundings! Are there not parents among the poor who love their children as well, but who have no choice but to familiarize them with the obscene words and practices of the street and the public school? When they see them pining away, can they procure for them such treatment or such change of climate as will save their lives? And can they be convinced that it is just that those whom they love so well should die for the lack of what the rich could spare from their lavish luxury without even missing it? Is it nothing to them that the most promising talents must be suppressed and stunted by early devotion to manual toil, that powers whose development would reward the most liberal expenditure must be crushed and blighted by the mere lack of food?

Certainly these deprivations are felt, bitterly felt, and to maintain that they are in accordance

with justice seems but mockery. Doubtless the poor are in some respects better off than ever before; but, on the other hand, they have perhaps never felt their poverty so keenly as now. They have been awakened to apparent possibilities of development and progress of which they formerly never thought; but they find these possibilities merely the stuff that dreams are made of. If remembering happier things is sorrow's crown of sorrows, what shall be said of finding that happier things once anticipated are forever unattainable? Yet such must be the lot of by far the greater number of the poor. Their lives and their children's lives must be passed in a continuous struggle with care and want, and, so far as hope of progress is concerned, they soon learn that the battle is lost, and that even hope must be abandoned. While there is no more disheartening feeling than that of our own exclusion from all possibility of success in life, it is intensified by the conviction that it is undeserved, and that others who are perhaps by nature our inferiors are granted the opportunities of development denied to us. Small wonder that socialism tends to become the religion of the poor of Europe, or even that anarchy seems to some the first step toward the attainment of justice.

Such "clouds of nameless trouble" as give rise to general denials of the justice of the nature of things, however real, are yet too vague to lead to the formulation of specific charges. But from time to time there come crises, such as the outbreak at the Carnegie works at Homestead, and the Chicago riot, when particular features of the present social system are thrust into odious prominence. The sting of poverty then maddens the multitude, and for a moment the dream of a social revolution, in which their opportunities shall come, approaches the reality of a hope. Then, too, the latent feeling of injustice blazes up among the benevolent, and, until quenched by reports of violence and rapine, leads them to express their sympathy with the aspirations of the labourers. Even when the battle has been lost and those who rebelled against their lot have been compelled to submit perhaps to even harder conditions than before, it is impossible not to be moved by the pity of it all, or not to regret that somehow the weaker combatants might not have prevailed. Such submission is but yielding to superior might, and involves no conviction of the reason, no conversion of the heart. It is like the submission of slaves whose fierce outbreak for freedom has been crushed by the combined force of their

masters; and seeing these things, many are led to speak of and to believe in the existence of such hardships in the condition of the labouring classes as may fairly be said to constitute a status of industrial slavery.

CHAPTER II.

THE STANDARD OF JUSTICE.

BEFORE undertaking a particular examination of the economic institutions that are believed to work injustice, it is desirable to ascertain as precisely as possible the meaning which we attach to that word when we speak of human society. In the first place, it is to be observed, the beliefs of men concerning the government of the universe are, from our point of view, irrelevant. This is so because of the distinction between remediable and irremediable evils. Death, for example, is an evil, but it is an unavoidable evil, and it is therefore not properly described as an injustice. The theist, certainly, can not call God unjust. He has created life and ordained death according to his good pleasure; and shall the thing formed say to him that formed it, "Why hast thou made me thus?" But the agnostic is even more effectually estopped. The laws of the universe are for him no personal commands, but mere uniformities in the operation of Nature.

The attribute of justice is altogether inapplicable to such conceptions, and the most that can be said is that they do not operate to our liking.

Christians may entertain different views concerning sin and evil. They may believe that the divine idea of justice is substantially the same as the human, and that, however it may be with sin, evil is only relative. So may agnostics hold that the laws of the universe tend to promote human happiness and welfare. But they must all agree both that suffering and death are intrinsically undesirable, and that they are not properly characterised as unjust.

Hence, whenever we speak of injustice, it is to be understood that human injustice is referred to. If we maintain that an institution is unjust, such as polygamy, for example, we mean that human beings wrongfully maintain the institution. It may not be easy to determine who these human beings are, or how their responsibility is distributed; but such human beings there must be, unless we commit the absurdity of charging an abstraction with moral turpitude. Such expressions, therefore, as the injustice of the present constitution of society, are really periphrastic; they can mean only that some human beings are acting unjustly toward others. To say this is, of course, not to define justice; that

definition will indeed occupy all the rest of our space. But we shall find our labour greatly lightened by bearing it steadily in mind that what is immutable is not unjust, and that there is properly no injustice except in the unjust acts of human beings.

In order to simplify the inquiry still further, let us define the injustice of which complaint is made as consisting in the compensation of labourers at too low a rate. By this, as is explained above, we mean not merely that we should like to have this rate of compensation increased, but that it is practicable to increase it. By labourers, it may be assumed, we mean ordinary manual labourers who work for wages, and not all persons who perform labour. We should be led quite astray if we undertook to include in our inquiry all those who make any exertion for a compensation. Many such persons, prosperous doctors and lawyers, for example, frequently possess much more wealth than those who employ them, and while they may complain of the inadequacy of their compensation, and even of the slavery of their lives, their condition does not arouse the sympathy of the public. The ordinary manual labourer, however, is conceived as immediately dependent for subsistence on the compensation received for his labour, and the

quality of his subsistence is therefore affected by the quantity of his compensation.

For the same reason skilled labourers are properly excluded. They, too, complain that their compensation is inadequate, but their dependence on this compensation is less immediate and the quality of their subsistence is higher than that of ordinary labourers. The subsistence of these latter, it is undoubtedly believed, is not ample or varied enough to enable them to attain that development of their capacities as human beings which is desirable, and those who deny them greater compensation than they now receive are therefore held to be guilty of injustice.

We must also determine whether we mean, in speaking of ordinary labourers, to include the whole class, or only some of its members. I think it will appear, on reflection, that it is the condition of the whole class that arouses the sympathy of the benevolent. There is no doubt a considerable difference in the compensation of the members of this class. As Mr. Booth has shown in his investigation of the condition of the poor of London, there is a "submerged tenth," whose subsistence is very precarious and miserable. This lowest stratum, however, is composed principally of those who are morally

delinquent. It is true that some persons maintain that the immorality of these degraded creatures is a necessary consequence of the conditions under which they live, and that they are therefore not responsible for it. Into the question of their actual culpability we do not need to enter, but it is impossible to deal with human beings practically upon any fatalistic theory. We can not confine the application of such theories to any class of humanity. Excluding the insane, we are obliged to assume that all adults are responsible beings, and that they have the ability to be moral. The temptations are different for different classes, and we can not determine degrees of guilt; but it is quite compatible with the exercise of the largest charity to hold that no one shall throw all the blame for his own drunkenness or dishonesty upon other people's shoulders.

We may not feel disposed to cast a stone at the poor, but if we undertake to acquit them of responsibility for the vices common to those in their station, we can not logically refuse to exonerate the rich from blame for the vices which prevail among their class. The obstacles to virtue which are encountered by the very poor may be formidable, but they are not insurmountable; for many of the poor surmount them. It is their

lack of honesty and temperance, however, that causes the lowest stratum of the poor to receive less compensation for their labour than ordinary labourers. To maintain that their compensation should justly be as great, would lead to the pernicious doctrine that virtuous conduct is no more deserving than vicious, and that it is unjust to pay less compensation for the services of drunken and dishonest labourers than for those of the faithful and sober.

In other words, the meagre subsistence of the extremely poor is mainly due to their own lack of virtue, and not to the injustice of social arrangements. The existence of that injustice must be established by showing that, because of these arrangements, the ordinary labourer who is willing to work hard and be temperate is unable to procure the wherewithal for proper subsistence. The problem of the "submerged tenth" is, in short, not the same as that portion of the "labour problem" which we are considering under the head of industrial slavery.

We must recognise the fact that the compensation of ordinary labourers appears to vary considerably, even when the amount of service is the same. Wages in large cities are frequently higher than in the country, and they are higher in some parts of the country than in others. But

it will generally be found that the cost of subsistence varies accordingly. We read in the reports of the Department of Agriculture that milch cows are valued at ten dollars in Utah and at thirty-two dollars in Massachusetts; that hogs are worth less than four dollars in Nevada and over eleven dollars in Connecticut; and the prices of grain vary to a corresponding extent. As food varies so greatly in price, it is evident that the real compensation of labourers is very imperfectly measured by money wages, and that much of the inequality in the latter is only apparent. Moreover, unless prevented by laws, or by combinations, labourers constantly tend to remove from where the rate of compensation is low, and to go where it is high. Adam Smith remarked upon the influence of the law of settlement and the exclusive privileges of the corporations or trade-unions in promoting inequality of wages in England; and the modern trade-unions, as they profess the same intention, doubtless accomplish the same result. But the improvement of the means of travel is a prodigious power in equalizing wages, as is sufficiently shown by the enormous volume of migration in modern times; and we may now make the assumption of an average compensation for ordinary labourers with less deviation from the

actual rates paid than ever before. And as it is plainly impossible to consider the case of labourers individually, we must be limited to an examination of the conditions of their average compensation.

It follows, therefore, if the compensation of labourers is unjustly small, either that employers are able under the existing social system to pay higher compensation (else there would be no injustice), or that under some other system than that of free contract this compensation would be greater. For a number of reasons it does not seem worth while to add another to the many elaborate criticisms of the schemes for the abolition of property and freedom of contract which go under the name of communism or collectivism. Some of these reasons will become evident as we proceed; but one of the most cogent is suggested by the proverb, "An two men ride of a horse, one must ride behind." All modern industry, all industry upon any large scale is necessarily co-operative. In order to accomplish any useful result, there must be direction and subordination. There have not been many concrete socialisms; but they have invariably encountered this difficulty and succumbed to it. Freedom of contract being abolished, submission to authority must take its place.

Accordingly, we find that all communistic schemes provide for compulsory labour, and that in them the condition of the labouring class must be that of "industrial slavery." In theory, the labourers would choose their directors or masters by universal suffrage, and would thus preserve a theoretical freedom. Even this freedom would be confined to the members of the majority. But if any ordinary member of the political faction that happens to be dominant in our present society will consider the matter, he will quickly see that he has practically nothing to say about the officers who direct his action. Theoretically he has a part in their selection; practically he is entirely helpless as to who shall be policemen, or inspectors, or judges, or county, State, or national officers. These officers now control but a small part of his action. Under communism they would control the whole of it; and hence the most repugnant part of the relation between employer and employed—that of obedience and submission by one human being to the authority of another—would be intensified.

At present the labourer, if he is obliged to work for a master, is at least able to choose whom he will serve, and can change at his pleasure. Under the *régime* of socialism no such liberty could be tolerated. It would produce as

much confusion as to permit private soldiers to shift from regiment to regiment, according to their humour. The direction of industry in a socialistic state would require much more skill and forethought than the direction of a military campaign, and the greatest disasters would result if the labourers assigned to one department of industry should choose to abandon it for another.

But, as I have said, it is foreign to my purpose to criticise the schemes of socialists at length. All that the present argument requires is that we should recognise the fact that socialism implies the surrender of the freedom of the labourer, the expectation being that this will be more than made up for by the increase of his compensation. We are therefore brought back to a consideration of the possibility of such increase, whether under the existing *régime* or any modification of it that is conceivable.

A word of caution may be offered here. In attempting reform, we can not deal with individual cases; we must proceed by means of general laws. For one thing, the number of individuals is too great. To devise regulations for their action would be altogether beyond human power, and the varieties of individual caprice are so infinite as to surpass calculation. Hence we

must classify human beings and human acts, and frame or modify laws and institutions with reference to these classifications. These laws and institutions may cause suffering in particular instances, but they can not be condemned as unjust unless they cause more suffering than would be caused by different regulations. Humanly speaking, therefore, a law is just if it tends more, on the whole, to promote what is commonly regarded as the general welfare than any other law that can be devised in its place. Our reforming zeal, therefore, need not be aroused by complaints of the injustice of any existing institution, if we find that no practical change of this institution is suggested or conceivable. Unless we can adopt a substitute that will work better, meddling will cause more injustice than it will remove.

CHAPTER III.

RELATIONS BETWEEN THE EMPLOYER AND THE EMPLOYED.

ACCORDING to the theory of our law, and of popular government in general, the relation between the employer and the employed is one of free contract. The employer offers such wages as he considers proper to such persons as he chooses. The labourer is free to accept or to reject the terms. Here, however, according to many, theory and practice diverge. The employer is free, but the labourer is under compulsion. The employer can do without the labourer, but the labourer can not do without the employer. The law may call the labourer a free-man, but modern economic conditions have made him practically a slave.

As a matter of fact, however, the status of a slave is very different from that of a labourer in modern times. A slave is a human being who can make no legal contract, who can suffer no tort, and who is legally liable to compulsion at

the will of his master. He is thus deprived of freedom of locomotion, and receives no wages for his labour except such support as the master thinks fit to allow him. According to this definition, the modern workman is very far from being a slave. He may be drunken, deceitful, lazy, incompetent, and wasteful; but no force can be applied to him by his employer. He may lawfully contract with any one, and the operation of the law is such that he can break his contracts with employers or with other people with impunity, while he can compel them to keep their contracts with him. His property is exempted from liability for his debts, but he is himself a preferred creditor. No one may prevent him from going whither he pleases, when he pleases, or staying anywhere while he pleases. So far as his legal status is concerned, it is nowadays indeed an exceptionally favoured one. The law has been changed so that combinations of labourers for the purpose of getting higher wages are permitted, although combinations of capitalists for the purpose of raising the prices of their products are forbidden. Labourers may combine to raise the price of what they have to sell; but employers may not combine to raise the price of what they have to sell, even if its cost to them is increased by the combination of labourers.

Still, it is urged, capital has the advantage of labour in the bargain for wages. It can afford to be idle, which labour can not; it is not lost if not used, like the labourer's time; and it does not suffer from cold and hunger. Putting this in concrete form, it amounts to saying that the workman is more dependent on the employer than the employer on the workman. It is not altogether easy, however, to define exactly what is meant by this. The co-operation of master and workman is as necessary as the co-operation of the two blades of a pair of scissors. The end in view can not be attained without this co-operation. Furthermore, it is to a large extent untrue that capital can afford to be idle; that it is not lost if it is not employed. To attain correct views of this subject we must examine its details with some care.

Very many goods which are properly classed as capital are of a perishable nature. Milk, for example, must be immediately consumed, or it will become worthless. Its production also is subject to the same condition as to time; for if cows are not milked at regular intervals they are ruined. The same is true of the production of the hay and grain upon which cows are fed, as well as of most agricultural products. The ground must be prepared in due season, the seed

sown, the crops cultivated and harvested at just the proper time, or very great loss will result. Meat and fish, fruits and vegetables, must be promptly marketed in order to save them—in spite of modern appliances for refrigeration; and when cooked by those who make feeding people a business, they can not be kept, but must be eaten at once.

Many things not subject to rapid decay nevertheless lose their value unless disposed of to the consumer at the proper moment. Articles of dress are subject to the caprices of fashion and quickly become unsalable. Spring goods must be sold in the spring, summer goods in the summer, “holiday goods” before the holidays are over. Pig iron is an article of most indestructible nature; but if the workmen at a blast furnace strike before the charge is drawn, the molten ore will congeal in the furnace and render it utterly useless. The owners of steam engines and many other machines are frequently at the mercy of their employees. A sudden refusal to work may result in very great destruction. Nothing, apparently, is less perishable than a mine; but mines require to be kept free from water, and if the miners prevent the operation of the pumps, as they have occasionally done, the value of the mines may be annihilated.

Most business is carried on largely with borrowed capital, and it must go on without interruption if the borrowers are to remain solvent and the lenders are to get their capital back. Contractors must complete their jobs at specified times, or they may be ruined, and their backers with them. Even if a man uses his own capital, he can seldom afford to let it be idle. Very much more than the loss of interest is generally involved in the stoppage of business; and the stoppage of some forms of business, such as transportation, the furnishing of food, heat, light, etc., can not be tolerated by society. It is hardly a figure of speech to say that capital is not a dead thing, but a living thing; for without continuous nutrition by productive activity it loses its power, and its very existence will soon terminate.

It may be said that, although prolonged idleness would destroy capital, yet it can bear temporary lack of employment better than labour. Even this is true only with modifications. Very few labourers are dependent for actual subsistence on incessant toil. Skilled labourers are to a deplorable extent given to drink, and thus prove their independence of continuous employment. Every employer has had workmen who would not work steadily; who chose to take a day off from time to time for rest or recreation.

Some of them prefer to forego their wages rather than expose themselves to rain, or cold, or heat; others are simply lazy. It follows that if in their own judgment abstention from labour has advantages that compensate for loss of wages, abstention at the will of their employers is not altogether injurious. If they lose their wages, they save their toil and have their time. This they can often employ advantageously at their homes; and the demand for an eight hours' working day proves that rest and leisure are not unmixed evils. Nor should we forget that the workman is not in danger of actual starvation in his contests with his employer. The municipality of Paris regularly devotes the funds appropriated for the poor to the relief of the families of men on strike; and under our poor laws the workman is entitled in the last resort to food and shelter, the expense of which, in part at least, his employers must defray. Indeed, it is now the case that funds are regularly contributed in aid of strikers whenever their action causes serious suffering to their families. It is privation, not starvation, to which the workman is exposed; and from privation, real as well as apprehended, employers often suffer. So far as the small employer is concerned, it is unquestionably true that he is often quite as dependent on his servant as his servant on him; and

in such cases the sufferings of the employer, when industry is interrupted, may be quite as great as those of the workman.*

It will perhaps be generally conceded that in the case of the employer who has but a small capital and engages only a few labourers, freedom of contract, although many cases of hardship occur under it, gives on the whole the best re-

* "If the labourers are in want, they must take whatever the capitalists offer them ; if the capitalists are in want, they must buy the labour on the cheapest terms they can, but get it they must. And the capitalist is as likely, perhaps, to be in want as the labourer. It is true that the distress of the labourer is much more conspicuous, and that he advertises it ; he goes about saying, ' I am starving, and it is the tyranny of capital which is killing me.' But it is also true that the capitalist is in danger of ruin, and that he conceals it. If he can not complete contracts which he has made, if he has to stay out of a return from his business longer than he can afford, he is ruined ; but he will never say this, because it may injure his credit and quicken the coming of the evil. He will lie awake with anxiety, till his hair turns prematurely gray, and till deep lines of care form on his brow, but he will say nothing. And it is necessary to insist on this now, because our current literature—some even of our gravest economical literature—is dangerously tainted with superficial sentiment : it speaks much of the sufferings of the workingmen, which are seen, and little of those of the capitalist, which are not seen. But the capitalist, being a higher and more thinking kind of a man, is probably of more sensitive organization than the labourer, and pecuniary anxiety is a more racking thing than any physical kind of pain short of extreme hunger. The mental feelings of the capitalist must just as much be regarded as those of the labourer in computing the rate at which the money of the one will be exchanged for the labour of the other."—*Bagehot, Cost of Production.*

sults obtainable. The obvious evils from disturbing it are greater than the probable gains. But when the capital of the employer becomes very large, and especially when the capital of a great many persons is combined by means of incorporation, the situation presents new features. The corporation is more enduring than the individual, and capital under this form is managed not by its owners but by their agents. Between the stockholders of a corporation and its servants there is frequently no personal communication, and the kindly relations that naturally arise from contact between man and man do not take place. But it is these kindly relations that in former ages softened the rigours of slavery and feudalism, and that have made the evils of the *régime* of contract tolerable. If it is impossible to establish relations of this character, or of similar tendency, between the managers of large corporations and those employed by them, the future can not be contemplated without grave anxiety. Indeed, many would say that De Tocqueville's prophecy has been already fulfilled, and that the "manufacturing aristocracy," which was growing up before his eyes, has become, as he anticipated, one of the harshest which ever existed in the world.

Of course, men will always quarrel so long

as human nature remains as it is. There will always be bickerings between husbands and wives, for that matter, but we do not on that account favour the abolition of matrimony. Masters and servants have "had words" since the days of the patriarchs, and such disputes will continue. But in all bargaining and in all disputes nowadays between the managers of great corporations and their men, it seems to be believed that freedom of contract is in some peculiar way interfered with; that some new element of inequality is introduced; that for some reason the great resources of the employer put the employee at a disadvantage. Disputes over the contract of employment in such cases are therefore regarded as differing from the traditional higgling over wages between master and servant. Such disputes are spoken of as the struggles of labour to emancipate itself, and some imputation of guilt to employers is thus implied. Let us, then, consider whether or not labourers employed by corporations suffer thereby any peculiar injustice.

CHAPTER IV.

THE STATUS OF LABOURERS EMPLOYED BY CORPORATIONS.

THE legal maxim, "Corporations have no souls," is without doubt interpreted literally by ordinary people. They reason that when the employees of a corporation rebel against the terms of their employment, the suffering must be all theirs. The corporation has no feeling; it can not suffer from anxiety or hunger or fear. The stockholders may, of course, be disquieted, but their sufferings can not be very keen. As they have no personal contact with the workmen, they are not unpleasantly involved in the dispute, and the loss from the suspension of business is not ordinarily so severe as to cause most of them great inconvenience.

The active managers of the corporation, it is true, may be subjected to a severe strain. Their responsibility becomes extremely great, and they may even be put in peril of their lives. At all events, they become objects of hatred, and are

exposed to storms of vituperation. But, after all, these managers are few, while the workmen are many. Perhaps no one individual among them suffers so much as the individual manager; but we are accustomed to count sufferings as well as weigh them. If there are a hundred men on one side and only one on the other, it certainly seems better that the one should suffer rather than the hundred.

Were there nothing else to be considered, it would be hard to refuse our assent to this proposition. But we must be on our guard against a fallacy of composition. We are dealing with individuals, and the question is whether the single workman, when employed by a corporation, is or is not more of a slave than when working for an ordinary employer. However it may affect society at large, the sufferings of the individual workman are all that, as an individual, he can complain of. Doubtless he is moved by sympathy with his fellows and affected by their aspirations; but such emotions constitute no limitations of his freedom. His particular grievances must always be low wages and lack of employment, and the corporate form of enterprise can not be assumed to create or aggravate these evils. It can not be arbitrarily maintained that the managers of these enterprises are more bru-

tal and hard-hearted than the managers of unincorporated concerns. No doubt masters that employ only a few workmen have better opportunities to cultivate kindly relations with them; but they are also better able to tyrannize over them, and it is well known that such tyranny has not been uncommon in the past.

Conceding that, to some extent at least, compulsion may take place without the application of force, and that practical restraints on the capacity to contract may coexist with legal freedom, we must ask in what way the corporate organization of industry favours these results. Such compulsion and restraint must take place through the operation of motives. What motives can the managers of corporations suggest to their men with the result of limiting their freedom? Whatever they are, they must belong to one of two classes: they must appeal either to the hope of gain or to the fear of loss.

It might not at first seem possible that any limitation of freedom could result from the operation of such a motive as the hope of gain. If the gain be secured, freedom would so far be extended. But, if we consider the matter closely, the danger appears to be real. The managers of some corporations have devised schemes for assuring pensions and death or acci-

dent benefits to their employees. These schemes involve the investment of some portion of their wages by the men, and it is quite possible that under some of them a man leaving the service of the company, either voluntarily or by discharge, would lose what he had invested. It would thus be practicable for the company to supplement the hope of gain by the fear of loss. It might reduce wages below the market rate, and yet its men would find that they would lose more than they would gain by changing masters, and might complain that they had parted with their freedom. But as this evil has perhaps not actually occurred, and as it seems possible to correct it by proper legislation if it should occur, it need not be seriously considered except by way of warning.

More deserving of scrutiny is the plan adopted by some corporations of inducing their workmen to become owners of houses near their place of labour. Where nearly all the industries in a small town or village are in the hands of one or two corporations, as is frequently the case, it may be impossible for a workman discharged by one of these employers to find other work in that locality. If he has invested his savings in a house, he may seem to have become to a certain extent *adscriptus glebæ*. He may have only partly paid

for his house, and if his wages cease he will be unable to complete his payments, and may lose his property by foreclosure. Even if it is free from incumbrance, he may be unable to sell it or to rent it. Should the corporation become insolvent and cease to do business, all the houses in such a town would depreciate in value, and many of them would become practically worthless. Under such circumstances the managers of the corporation apparently have it in their power to compel such workmen, by the threat of dismissal, to accept lower wages than are elsewhere paid.

It may be questioned, however, if this has ever taken place, or is likely to take place to a serious extent; and even if it were common, it does not necessarily follow that the ownership of a home tends on the whole to reduce workmen to a condition of slavery. "He that hath wife and children hath given hostages to Fortune"; but the happiness of family life must be regarded, all things considered, as more than compensating for its peculiar cares. Whatever bad qualities are popularly ascribed to the managers of corporations, it is notorious that they are universally animated by a desire to secure good and steady workmen. Men that have families and own their homes are generally of this character, and they

will be the last to be discharged when it becomes necessary to reduce the working force.

Moreover, unless all the employees of the corporation are somehow affixed to the soil by ownership, it will not be practicable to reduce wages below the rate elsewhere current without discharging some of the workmen. Without a reduction of numbers, a reduction of wages would lead what may be called the floating element among the workmen to obtain employment elsewhere. Hence, unless it was intended to curtail business, wages would not be reduced. If under such circumstances wages are reduced, the step must be made necessary by unprofitable business. The landowning workmen may thus be led to submit to a reduction of wages which those who do not own land can avoid by emigration; but even then their condition may be on the whole preferable. The saving in rent, and the other advantages connected with proprietorship must frequently outweigh whatever loss arises from reduced wages, if we are correct in arguing that such reduction is made imperative by the depressed condition of trade. Nor should we disregard the loss of time and other expenses incurred by those who change their place of employment, nor the fact that reduced wages are usually accompanied by

lower prices for the goods consumed by workmen.

It seems, therefore, to be proper to conclude that the employees of corporations do not suffer any material limitations of freedom by yielding to temptations to improve their condition presented by their employers. Were the conclusion different, it would still be impossible to show that in this regard the employees of corporations are at a disadvantage as compared with the employees of individuals. In general, it is true that such limitations of freedom are most likely to take place elsewhere than at the centres of industry, and outside of these centres the individual employers of labour are much more numerous than the corporations. As a rule, it must be added, they are in better position than managers of corporations either to benefit or to injure their employees by taking the control of their savings. Where corporations abound, we may be sure of finding savings banks, which afford reasonably safe investment for the earnings of poor people. Where there are few corporations, there are no savings banks, and the working people are obliged to intrust their accumulations to more or less irresponsible individuals.

It remains to consider how far it is in the power of the managers of corporations to limit

the freedom of their men by appealing to their fears. As we have seen, the application of force, or physical pain, is no longer allowed, and legal proceedings against defendants proof against execution are disastrous remedies for the plaintiffs. The only available means of arousing the fears of workmen, as such, is by threatening them with lower wages. All other forms of what is spoken of as "corporate tyranny" can be reduced to this.

The demand that men shall work longer hours for the wages now paid for a shorter day is obviously the same thing as a reduction of wages. The demand that men shall perform more work or do it better within the established hours is in effect the same. The exaction of fines, the adoption of vexatious rules, all amount to a diminution of the compensation received by workmen for their labour. In short, whatever increases the sacrifice involved in the toil of the workman without giving him additional recompense in effect reduces wages. Adam Smith said of certain indefinite exactions that their amount might be measured by what men were willing to pay to get rid of them. So with every requirement on the part of the employer: it is weighed by the workman against the wages that he receives. It may be added that dismissal, or the

total deprivation of employment, although not precisely the same thing as a reduction of wages, differs from it only in degree.

To what extent, then, can the managers of corporations go in enslaving their employees by reducing their wages? The limit appears to be a plain one. If the workman considers that the loss involved in submitting to a reduction of wages will be greater than that incurred in seeking other employment, the presumption is that he will not submit. The master, therefore, when he knows that other employment can be obtained by his workmen at as good wages as he offers them, will not attempt to reduce wages. To do so would result in depriving himself of labour, and putting a stop to his business, unless he could obtain a new force. If his former force were able to find places at the higher rate of wages, it is evident that a new force willing to work for lower wages would not be obtainable, or, if obtainable, that it would consist of inferior workmen. But to employ inferior workmen at lower wages is seldom an economy. They cost more than better men better paid.

It follows, therefore, that managers of corporations can effectively adopt the measure of reducing wages only when the conditions of business are such as to make a general reduction of

wages practicable or necessary. And it is plain that as a general rule, when such conditions prevail, managers of corporations must adjust their affairs to them. We must assume that corporations engaged in business have to meet competition in disposing of their products, and the manager that undertakes to pay higher wages than are paid by his competitors—the efficiency of the labourers employed being the same—will be at a disadvantage. He can not afford to dispose of his products at a less price than before. They can, and they will secure his former customers. There are many exceptions to such general propositions as these, some of which are of such importance as to require special consideration; but on the whole, and in the long run, the correctness of these conclusions can hardly be controverted. If they are valid, it necessarily follows that the managers of corporations as a class can appeal to the fears of their workmen no more effectively than other employers of labour; that they, like other employers, are controlled by the conditions of business in raising or lowering wages; and that “industrial slavery,” if it may be said to exist at all, prevails as well among the employees of private individuals as among those of corporations.

CHAPTER V.

SOME EXCEPTIONS CONSIDERED.

THE conclusions reached in the last chapter are of a very general character, and are therefore subject to many exceptions. While it may be conceded that, as a rule, the manager of a corporation possesses no special powers of oppression, the belief unquestionably prevails that this is not true of the managers of all corporations. If the corporation employs a very large number of men, or if it is especially strong in its financial resources, or if it possesses a monopoly of a certain branch of industry—in any of these cases, and still more when all these conditions are combined in one case, the causes that usually determine the rate of wages may be counteracted. The arbitrary determination of a few domineering men may then be more potent than the law of supply and demand, and they may, for a time at least, secure excessive profits, while they are coercing their employees into accepting diminished wages.

In the first of these cases, it may be contended, the great number of workmen subject to the direction of a single employer of itself renders the theory of a free labour market untenable. If an individual employer discharges a single servant, it may be easy for the servant to find other work; but if a corporate employer discharges a thousand servants at once, it can not be possible for such a number to find work without greatly disturbing the rate of wages. There can not be places for them all, and they can only get places by underbidding those who have them already. The men understand the situation, and, rather than encounter the suffering that will result from being discharged, they submit to that involved in reduced wages. Of course, there is a limit to such oppression. Those who contend that it exists do not maintain that wages can be reduced indefinitely by the mere fiat of the employer; but they think that there is a kind of "zone" where the employer is supreme. He not only gets out of his labourers all that the industrial conditions justify, but also all that his disproportionate power enables him to exact. The labourers yield because of their fears. They do not know where else to look for work; they are attached to their present abode; they are perhaps too poor to incur the expense of moving, or,

if not, they are reluctant to expend their little savings in uncertain ventures. They may not permanently submit to such exactions, but for a time, at least, they will endure familiar ills rather than fly to others that they know not of.

Doubtless such a situation as this is theoretically possible; but before we undertake to reason from it we must define it much more precisely. It must be admitted that employers of labour for the purpose of profit, whether individuals or corporations, are under constant pressure to reduce the cost of production, in which the wages account is usually the principal item. If there is a "zone" on which encroachments can be made, competition will make it impossible for the most benevolent of employers to refrain from encroachment. We are, of course, assuming that the qualities of the workmen are the same, and that the conditions of employment do not materially differ. We must also have it in mind that no conclusions in such matters are perfectly accurate, but that all that we can possibly attain to in the way of general laws is the statement of averages and the establishment of tendencies. With these limitations, it appears true that unless the employer is protected in the sale of his product from the competition of other employers, he must

ordinarily reduce his wages account to correspond with theirs. Under free competition, therefore, there could be no such "zone" as is imagined. If invaded by one employer, it would quickly be occupied by all. In other words, the rate of wages within the supposed "zone," or "margin," is regulated by the conditions of business, and not by the arbitrary fiat of individual men. Wages, in every particular case, are fixed by voluntary agreement; but the terms of the agreement are fixed by circumstances. The theory of a "zone" is true in the sense that wages and profits fluctuate; but it involves a fallacy of composition if it means that employers as a class can at all times afford to pay higher wages than they do pay.

The magnitude of the corporation has no bearing on this conclusion. The manager of a great corporation, if he is to be successful, must adopt the same methods as the manager of a small one. However he may be described by our newspaper writers and legislators, as a matter of fact he does not desire to employ slave labour. He would rather have well-fed than ill-fed workmen, contented than discontented, hopeful than disheartened, friendly than hostile, workmen. He will give up his preferences in this matter rather than surrender the control of his property,

and abdicate the management of his business. But so far as the rate of wages is concerned, no employer, great or small, corporation or individual, wishes his servants to think that they are working for him for less compensation than they can obtain elsewhere. He may be willing to profit by their ignorance; but unless his business is diminishing he will be unwilling to stir up their discontent. As a matter of fact, it is probable that the compensation received by the employees of large corporations is, all things considered, rather above the compensation of labourers in general. The money wages paid to unskilled workmen by these corporations may be very small; such workmen seldom command high wages from any employer. But if we take into consideration the regularity of employment, the conditions under which it is carried on, and the comparative certainty of payment, it is difficult to maintain that they are not on the whole better off than if they were serving individual employers. When Homer wished to depict the extreme of misery, he instanced the lot of the poor man's slave, and few labourers would to-day prefer the service of an impecunious to that of a wealthy master.

We have turned aside a little from the consideration of the possibility of the wholesale dis-

charge of workmen by the managers of a great corporation, and the use of such a possibility as a means of reducing wages. It can scarcely be contended that such a measure would be resorted to when trade was prosperous. Conceding the power to exist, there would be no motive for its exercise. If the men refused to accept reduced wages and were discharged, the corporation would suffer great loss, and in the case supposed would be unable to supply its wants, except with the refuse of the labour market. But, it may be thought, the case is altered when trade is depressed. The profits of the corporation are reduced or cut off altogether, and in order to preserve or restore them, the managers insist that the men shall receive less compensation. At such a time the employer would perhaps be glad to suspend operations completely. The men, knowing that wages are falling elsewhere, may, in view of the possibilities of loss, be led to accept such a reduction as enables the corporation to continue to make the same profits as before. The labourer employed by the small employer might be willing to take his chance of finding other work, if any excessive reduction of wages were proposed; but when a large number of labourers are affected they know that many of them, if the whole body were discharged, would probably for a consid-

erable time find it impossible to obtain any employment at all.

Upon careful consideration, it appears to me theoretically possible for some great corporations, under these circumstances, to reduce the wages of their workmen temporarily to a figure lower than that at which they could find employment elsewhere. A great manufacturing corporation, for example, whose works are in an isolated location, may conceivably take advantage of its workmen in this way. It is possible that this conception may have been sometimes actually realized, but the facts are notoriously against it. In the first place, the greatest corporations are the railroads, and they are entirely unable to stop their operations. The limit to which they can go in reducing wages is fixed by the conditions of business. They must have a working force, and they can not fix wages at a rate lower than that at which they can obtain workmen to take the place of those who quit their service. If they did so they would tie their own hands. But whatever regret is felt over a reduction of wages to such a rate as this, must be based on some other ground than its injustice to labourers as a class. The loss experienced by the labourers who are discharged is offset by the gain made by those who take their places, for

these latter are presumptively bettering their condition.

But much more than this is true. It is well known that a large number of our great railways are insolvent. They pay nothing to their stockholders, and only a portion of what they owe their bondholders, if they pay them anything. Under such circumstances it is evident that they continue to pay their employees not only all that their services are worth, but more than they are worth. They can earn neither interest nor dividends while they continue to pay such wages; nevertheless they continue to pay them. The stockholders and bondholders thus contribute to pay to a large number of labourers higher wages than they really earn. It would certainly seem that these great corporations, so far from having it in their power to oppress and enslave their workmen, are really in their workmen's power. It may be added that the Federal courts, which have been denounced as hostile to labourers, have in some instances compelled the receivers of insolvent railroads to apply their revenues to the payment of higher wages than those for which they could obtain satisfactory service. This may be regarded as unjust by bondholders, and as partial by unemployed labourers, who would be glad to work at the lower rates; but it affords

no support to the view that these great corporations have any exceptional power of forcing unreasonably low wages on their men.*

In the second place, we must not disregard the fact that it is a severe blow to the welfare of any corporation, and perhaps especially to a great manufacturing corporation carrying on its operations in an isolated place, to disperse a corps of workmen. It is perhaps too often assumed that for the purposes of such a corporation one labourer is as good as another, and that new hands are as good as old. Those who have any acquaintance with the conduct of manufactures will not make this mistake. For many purposes the composition of the rank and file is not very important. Where little skill is required, supervision will generally secure proper work. But, in most manufactures, skilled labour is important, and, in all, trustworthy supervisors or foremen are indispensable. No prudent manager will disband a trained and disciplined body of men if he can help it. He will rather suffer some loss to retain them. As a matter of fact, there are numberless instances of this. Not every reduction of profits

* The United States Commissioner of Labour declares positively that the wages paid by railroads are higher than the current rate. "There has never been a time," he says, "in the history of railroads, when men did not stand ready to fill a labour vacancy at the wages fixed by the railroads."

makes a reduction of wages necessary or wise. We need not attribute benevolent motives to the managers of corporations who recognise this truth, although we should not always be mistaken in so doing. They need only to be actuated by an enlightened self-interest, and so much sagacity as this it is reasonable to concede to them.*

We have so far considered the power of great corporate employers over labourers as positively displayed in the reduction of wages. It remains to inquire as to its negative exercise

* It is hardly necessary to say that the notion that employers can fix the rate of wages according to their will is not of modern origin. Macaulay quotes a ballad of about 1685 in which a master clothier says :

" In former ages we used to give,
 So that our workfolks like farmers did live ;
 But the times are changed, we will make them know.

 We will make them to work hard for sixpence a day,
 Though a shilling they deserve if they had their just pay ;
 If at all they murmur and say 'tis too small,
 We bid them choose whether they'll work at all.
 And thus we do gain all our wealth and estate,
 By many poor men that work early and late."

Compare this with the course of one of the " coal robbers," the Delaware and Hudson Canal Company, which now pays the holders of its stock and bonds about \$2,100,000 annually, while it pays for labour over \$9,000,000. It has \$35,000,000 in stock, \$5,000,000 in bonds, total, \$40,000,000; and within five years it has paid labourers more than \$44,000,000.

in the failure to raise wages when profits increase. A little reflection, however, is enough to show that the cases are substantially parallel, and it would be tedious to repeat the preceding argument in detail. To a considerable extent, when trade is prosperous and wages tend to rise, the workman's fears give place to hopes. If his employer does not raise his wages to such a rate as elsewhere prevails, he thinks that he will better his condition by a change, and he is therefore disposed to press his advantage as far as possible. The employer, on the other hand, is anxious to "make hay while the sun shines," and will think it for his advantage to pay something more than the current rate of wages, rather than to have his business interrupted by changing his working force. It is now the workmen that can appeal to the fears of the employers, and although they are frequently prevented by their ignorance from pressing their advantage to the utmost, they are perhaps generally disposed to insist upon it to the extent of their knowledge. Much could be said in support of the view that in this way a certain average of justice is maintained, and that if great corporations drive hard bargains with their workmen when trade is declining, their workmen are correspondingly exacting when prosperity returns. But it is hardly worth while

to enlarge upon this, for it is quite clear that in a period of rising wages great corporations have no "disproportionate power" over their workmen. If they were to discharge them as a body, they would find it practically impossible to fill their places except at great expense. If they attempt to crowd upon the "zone" into which wages graduate, they will find that workmen are leaving them at a time when it is for their advantage to increase their force.

Taking everything into consideration, we seem justified in concluding that corporations employing a large number of workmen do not possess by virtue of their mere magnitude any exceptional power of oppression. They can cause no more suffering to an individual workman than can be caused by other employers; and when we set the whole body of the employees against their corporate master, and weigh the loss and injury which they can inflict against what they may suffer, the inequality between the parties is not very manifest. Indeed, when we consider the difficulty of suddenly procuring a great force of labourers capable of carrying on the work of the corporation, we see that its very magnitude makes it more dependent and helpless.

We may now proceed to examine more particularly the contention that such corporations

as have exceptionally great wealth have exceptional power 'over their workmen. In such cases it is commonly believed that the arbitrary fiat of a few arrogant men can override the laws of supply and demand. It appears to be thought that the resources at their command enable them to coerce their workmen into accepting lower wages than might fairly be claimed, while profits are maintained at excessive figures. From the ordinary necessities of employers such men are supposed to be exempt. They are in position to endure the losses resulting from a temporary stoppage of their business; or, at least, they can much better endure such losses than their employees can endure the loss of their wages. The employees may be able to hold out for a while with the aid of such little savings as they have made, but these savings will soon be exhausted; they are sufficient for a single battle, but not for a long campaign. Their employers, however, can not be overcome in a single battle. Hence, they can not be overcome at all, and the strike, the only military measure available to workmen, is sure to be disastrous to them. If they resort to it they are only playing into their opponents' hands. When it is over, and they are obliged to admit the defeat which they might have known to be inevitable, they are far more helpless than

before. Their savings are dissipated, their courage is gone, and they are at the mercy of their masters. Like the wretched inhabitants of Carthage, after their weapons have been taken from them and resistance is hopeless, they are offered the alternative of starvation or slavery.

No better illustration of such a situation as is above described can be asked than the strike of the employees of the Pullman's Palace Car Company in 1894. This company not only carried on very extensive operations, but also possessed exceptional financial resources. The par value of its capital stock in 1893 was \$36,000,000. Without debt, with revenue amounting to over \$11,000,000, with expenses of less than \$5,000,000, after having paid dividends since 1877 never less than eight per cent, it had accumulated an apparent surplus of over \$25,000,000. The business of the company having greatly fallen off in 1893, some of its shops were closed, and the number of workmen employed was very much diminished. It was found by the officers of the company, after diligent inquiry, that a good deal of business was to be had, but at very unremunerative rates. They decided to secure this business by bidding for contracts at such figures as would afford no profit, and as would require a considerable reduction of wages

in order to avoid a positive loss. They knew that higher bids than those made by them would have no chance of acceptance, and as a matter of fact they were underbid on a number of contracts. This reduction of wages was accordingly put in force, and against it the men struck, with the far-reaching results so well known to the world. After a long period of idleness a number of them yielded to the necessities of the situation and returned to work at the company's terms, the remainder disappearing from the scene and giving place to newcomers.

This episode was in many ways of such importance that it will be necessary to refer to it again; but for the present we must confine ourselves to its bearing on the particular point under discussion. Did the Pullman Company on this occasion, by virtue of its exceptional wealth, bring to bear on its workmen any exceptional pressure? Was it able to force a reduction of wages which a less wealthy employer would have been unable to enforce? Were its workmen subjected to any limitation of freedom which a feebler employer would have been unable to bring about?

The statement of these questions appears to bear their answer on its face. Had the Pullman Company been less strong financially, it is evi-

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dent that it could not have offered its men so favourable terms as it did. If it had been in debt, or obliged to borrow money to carry on its business, it would not have been a safe policy to bid for contracts in which there could be no profit. The pressure which it brought to bear on its workmen consisted in offering them the option of reduced wages or no work. A feebler concern would have been obliged to close its works altogether, or to offer still lower wages. It would have been compelled to insist on a reduction which the Pullman Company was not compelled, but only persuaded, to adopt. The freedom of its workmen would have been affected by this same necessity, and limited to an even greater extent.

In short, the severe conditions of business to which a wealthy employer has power to a certain extent, and for a short time, to assert his superiority, would have dominated both the weaker employer and his employees. Whatever odium was incurred by the Pullman Company, therefore, must have been aroused by other causes than any exceptional exercise of power in the reduction of wages. The evidence indicates that the company would have suffered smaller loss by closing its works altogether than by undertaking the contracts which it did; and if this is true, a less

substantial concern would probably have been obliged to close.

Still, it may be urged, there are situations conceivable in which the wealthier employer can more effectually coerce his workmen. Business may be in such a condition that a small profit can be made, although less than an average one, without any reduction of wages. In such a case a corporation of limited resources may find it prudent to be content with very little profit, rather than run the risk of having to suspend its operations on account of a general strike. Its managers might consider a reduction of wages justifiable, and yet not dare to insist on it. By continuing as they are, they can hold their own, perhaps, until better times, while if they stopped work altogether they might find it impossible to remain solvent. On the other hand, a corporation with plenty of money at its command could, under such circumstances, carry things with a high hand. The trifling profit to be gained might not be an inducement sufficient to influence the action of its managers. They are prepared to face loss, and they can say to their employees that work will go on at reduced wages or not at all.

While such a situation is conceivable, it does not often appear to exist. Nothing is more common than for wealthy corporations to pass

through periods of unprofitable business without disturbing the wages of their workmen. The discontent aroused by reduced wages may cause more loss than will be balanced by any saving in the wages account, and as a general rule men in charge of a business are very reluctant to have it interrupted. To an extent that is probably not generally realized, the success of a business depends on the success of its managers in securing customers. If the business is suspended, these customers may be lost. They are captured by watchful rivals, and they may not be won back. As a rule, it may be laid down that it is unwise for any large concern to reduce wages unless the conditions are pretty imperative. Then, the workmen appreciate the necessities of the situation; but if they believe that their employer is making customary profits, while making them accept lower wages, they are very apt to rebel. Taking all the conditions into consideration, we can hardly escape concluding that corporations of exceptional wealth are not sinners above other employers in limiting the freedom of their workmen. In fact, we can hardly deny that, on the whole, their workmen fare better than those of less opulent masters.

We have still to examine the case of corpora-

tions enjoying monopolies of particular branches of industry. The term monopoly is now used in a very loose way, and probably means in the popular mind nothing more than the realization of profits above the average. This, of course, implies that for some reason free competition does not prevail, but it is not so much the absence of competition that is regarded as the existence of excessive profits. A corporation, therefore, which possessed entire control of a certain industry, but made only the ordinary rate of profit, would not be, or possess, a monopoly, as now commonly understood. The case before us, therefore, is reduced to the inquiry whether corporations enjoying exceptional profits are able, by virtue of them, to make exceptional exactions from their workmen.

In this case, also, the clear statement of the question indicates what the answer must be. Unless there are exceptional hindrances to the free movement of workmen out of the industry carried on by the monopoly, it can not be possible to depress their wages to any greater extent than they are elsewhere depressed. If the general business of the country is bad, monopolies can reduce wages, because their employees know that if they quit their work it may not be pos-

sible to obtain employment elsewhere. If business is improving, the managers of the monopolies know that if they do not raise wages their working force will diminish at a time when it is desirable to have it increase.

So far as unskilled labour is concerned, it is evident that there can be no exceptional hindrances to its seeking the employer that pays the best wages. The case may be otherwise with skilled labour in special lines of industry. To change his trade may be a serious hardship to a workman who has attained great proficiency in a certain department, and if there is only one employer in that department, he may appear to be entirely dependent on that employer. But we must not disregard the fact that in such cases the employer is equally dependent on his workmen. If he loses them he can not replace them, for there are no others possessing their peculiar qualifications. Since we are assuming that the employer is making exceptional profits, it follows that he is under exceptional inducements to maintain his working force. The conclusion must therefore be that monopolies are likely to pay their skilled workmen higher rates of wages than are current, rather than lower ones. As a matter of fact, skilled workmen under such circumstances are apt to be strongly united, and

to appreciate the advantages of their position. They are exceptionally independent, rather than the victims of oppression, and their condition is very far removed from that of "industrial slavery."

CHAPTER VI.

SOME ELEMENTARY TRUTHS ABOUT CORPORATIONS.

THE arguments heretofore presented have been of a nature to prove that corporations, even when exceptionally rich, have no power, or, if they have the power, have no sufficient motive to reduce wages below the rate paid by individual employers. In such a treatise as this it is not practicable to appeal to facts, except in a very general way; but I do not hesitate to say that any one who will observe what is within his own field of knowledge will find abundant confirmation of the above reasoning. The ordinary farm labourer receives wages varying, according to the time of year and the necessities of his employer, from mere board to \$20 a month in addition to his keeping. It is doubtful if at the present time farm hands get through the year the equivalent of \$20 a month without board. Much higher rates may prevail in some parts of the country, but they are offset by the lower rates

which are all that many farmers in the West and South can afford to pay. Very few corporations, however, pay lower wages than these, and the greater number pay much more. Even the Pullman Company was paying its men at the time of the strike on the average more than \$2 a day, and wages as low as \$1, paid by corporations, are on the whole exceptional even for unskilled labour. In the case of railroads, we have already seen that, at the present time, many of them are paying higher wages than the average of private employers, and that it is the judgment of the United States Labour Commissioner that this is and always has been the rule. But however this may be, no evidence has been made public at any time showing that corporations in general, or rich corporations in particular, do, as a matter of fact, either systematically depress or from time to time reduce the wages of their employees below the rates paid by private employers for similar service.

But it is impossible to ignore the existence of a belief or conviction that corporate employers, especially if they are rich, owe something more than this to their workmen. We shall, perhaps, find sufficient reasons why this belief is not very clearly expressed or definitely asserted; but it unquestionably prevails. The leaders of the

American Railway Union stated it very frankly in their testimony before the commission that investigated the Chicago strike. They thought that the Government ought to own the railroads, "meeting deficits as they do on mail routes," and applying the vast sums now paid in dividends to the payment of such wages and pensions that "the men would not feel that they had to resort to extreme efforts of any kind to maintain a livelihood." Undoubtedly men that maintain such a proposition as this consider that the Government is abundantly able to pay these liberal wages and pensions. The Government is the most powerful and in a certain way the richest corporation of all, and it is not surprising that the ordinary labourer, observing the wages and pensions paid by it to a certain number of its subjects, should see no reason why similar favour should not be extended to a greater number, if not to all.

Nor are such beliefs confined to labourers. The members of the strike commission, in the questions addressed by them to the officers of the Pullman Company, indicated their conviction that these officers ought to have paid higher wages than their competitors, although they could get no higher prices for their products. The testimony of these officers showed that the

company was not only making no profit, but was actually losing money on its contracts; that its surplus represented the accumulations of twenty-seven years, intended to insure to its stockholders the maintenance of dividends, while the workmen at Pullman had been in its employ on the average probably little more than two years; that the earnings of the employees had always been at a high rate, no material reduction having ever taken place before, and that this reduction was followed by the employment of three times the number of men that had been at work before it was made.

Nevertheless, the commissioners pretty clearly intimated that the managers of the corporation were under a moral obligation to apply its surplus to the payment of higher wages. It does not clearly appear that they held that the demand of the strikers for the wages prevailing before the panic should have been complied with, but they apparently regarded a reduction of twenty-two per cent as unfair. Nor does it appear to me to admit of doubt that the commissioners represented a considerable public opinion. I take no account of the ravings of newspaper writers or the frantic utterances of demagogues. Disregarding these, I am satisfied that a large number of upright and benevolent

people sincerely believe that under such circumstances as are stated above, to reduce wages is an act of oppression. This necessarily involves the principle that, as a matter of justice, corporations should not only pay their workmen when business is good as high wages as are paid by other employers for like service, but should also, when business is bad, pay them higher wages than their competitors; or else it involves the principle that such corporations as have an accumulated surplus are justly held to this responsibility.

I have been careful to use the expression, the managers of corporations, in many cases where it would have apparently been simpler to speak of corporations directly. However pedantical this may have seemed, it has been done from the deliberate conviction that a great many dangerous fallacies spring from the practice of personifying abstractions. This is especially true of corporations, and it is particularly mischievous in the case of the Government, which is the largest corporation of all. Most of the wild schemes that captivate the imagination and excite the hopes of the populace are unconsciously based on the assumption that the Government is a semi-omnipotent being, having inexhaustible stores of wealth in its possession, which it is able to dispense in

the shape of bounties, or pensions, or money, to the inestimable gain of its subjects. If the common people could be made to realize that Government is merely a name expressing a body of relations under which the actions of a certain number of human beings are determined, that it has no powers in excess of the combined powers of these human beings, and no revenue except what is furnished by them out of their earnings, a great stride forward would be made. Hence it is of the utmost importance, when we are discussing governmental policy, to speak of the wisdom and justice not of our Government but of our legislators; to dwell not on the wealth of our Government but on that of its subjects; and to emphasize the truth that what is called the revenue of Government is nothing but a part of the revenue of the individual men, women, and children composing the nation taken from them in the shape of taxes.

For somewhat similar reasons it is eminently desirable to avoid personifying other corporations. No matter how clear-headed we may be, it is impossible not to be affected to a certain extent by the incessant attribution of the qualities of the angels of darkness to these legal abstractions. No one will deny that it is only by a figure of speech that moral quality can be as-

signed to anything but the acts of human beings; but no one will deny that it is very difficult not to be misled by figures of speech. We hear so incessantly of the greed, the tyranny, the rapacity, the unscrupulousness of corporations, that we are in constant danger of forgetting that in reality no such vices can exist, and of insensibly acquiring a prejudice against the very name corporation. Sensible people may be able by an effort of reason to avoid most of the worst results of such fallacies, but it is doubtful if they can avoid them altogether; and it is certain that many unreasoning people are completely deceived by them, and think and talk as if the country was overrun and dominated by swarms of incorporated demons. We congratulate ourselves on our own enlightenment, when we read of the hosts of ghouls and werewolves and hobgoblins and witches and bogies with which, in the middle ages, our miserable ancestors imagined themselves to be encompassed; but if they were to read some of the accounts now published of the fiendish malignity and superhuman ingenuity of our corporations, they might be inclined to think their plagues a lighter infliction than ours.

In view of the mischief likely to arise from such fallacies, it is perhaps prudent to restate some elementary truths concerning corporations.

They are not persons, and can have none of the attributes of persons. They can not commit wrong or suffer wrong. They can be neither benevolent nor malevolent. They can not be seen or touched. They have no souls nor any life. When we speak of a corporation, we mean generally that a certain number of people have agreed to put some of their property in charge of certain agents, for a definite period, and for special purposes. The owners of the property part with their control over it, and in consideration of this are exempted from liability for the acts of their agents, except to the amount of the property committed to their charge. When we speak of the acts of corporations, therefore, we mean, and can only mean, the acts of the stockholders or their agents. When we speak of the greed, or the oppression, or the malice of a corporation, we mean, and must mean, that some or all of the stockholders, or trustees, or officers, or agents of the corporation are guilty of these abominations. When we speak of its crimes, we mean crimes committed by some of these individuals. When we speak of imposing fines, burdens, taxes, or other charges on corporations, we mean that they are to be paid out of the property of certain individual human beings. And when we speak of the resources of

a corporation, we mean a certain quantity of wealth that belongs in definite proportions to a certain number of human beings called its stockholders.

Let us therefore inquire whether the men who manage corporate enterprises, or those who own corporate property, are under any greater moral obligation than private employers to pay their workmen higher wages in bad times than those currently paid for similar service. It is to be observed, in the first place, that the managers of business corporations are restrained by law from applying the funds under their control to benevolent purposes. They are liable as trustees for the stockholders, and confined by the corporate charters to certain definite business operations. There is, no doubt, some elasticity in these restrictions. The law will not compel the manager of a corporation to reduce wages to the lowest possible figure at which he can obtain workmen, provided he can reasonably claim that in the long run such a policy would be injurious to the property under his charge. On the other hand, it will not sanction his application of surplus capital to the payment of unnecessarily high wages on grounds of humanitarian sentiment. In neither direction can he go so far as the private employer, for the latter is dealing with his

own property, and is responsible only to himself. Nor would it be safe for the law to lay down any other rule. Trustees are too prone to treat the funds under their control as if they owned them, and if the law is to be modified, it should be in the direction of more rather than less rigid accountability.

In the second place, justice does not seem to require that stockholders in corporations should pay higher wages to their workmen than other employers. Corporations not possessed of exceptional advantages have no power to pay exceptionally high wages, and where the power does not exist there can be no moral obligation. Such a requirement would imply the existence of a responsibility for employing property in corporate enterprises which does not attach to its other uses. Were it true that the existence of corporations was an evil in itself, and that there was something culpable in investment in them, it might be proper—if it could be proved practicable—to enact such laws as would make the return on capital so invested smaller than on that under private management. Perhaps no one is prepared to maintain the truth of this proposition; yet, since much denunciation of corporations is unjust unless it be established, it seems necessary to examine it.

It can not be denied that without the aid of the corporate form of doing business, a vast amount of wealth that is now productive would be wasted; many fields of industry would have to be abandoned, and many labourers deprived of employment. By means of corporations an infinite number of small sums, of which the owners can make no profitable use, are united into large funds, which bear fruit in both profits and wages. It is, of course, possible for business to go on where there are no corporations, but it must be on a restricted scale. The vast operations of modern industry are only possible by means of our credit system. Borrowed capital, and enormous quantities of it, are as necessary to the conduct of the business of the present day as coal is to the production of steam or iron to the operation of railroads. As Mr. Bagehot points out, the English did not look with favour on the construction of the Suez Canal. So acute an observer as De Tocqueville thought that it would bring back the Eastern trade to the Mediterranean and revive Genoa and Venice, and the English generally agreed with him. But when the canal was made, it was found that it could be profitably used only by large vessels, and that the great supplies of loanable capital necessary to send forth a fleet of these vessels were to be

found only in England. No one will question the fact that the railroads of the United States have added almost fabulous amounts to the national wealth. Without them, regions now crowded with towns and cities would still be the hunting grounds of Indians, and the white population would be confined to the neighbourhood of the ocean and the waterways. These great railroads, however, could never have been built without the use of borrowed capital; and without the aid of corporations this capital could neither have been made available in the first place, nor utilized after it had been made available.

This will be evident if we consider what agencies are necessary for the collection and application of capital, if it is to be used on the present scale. Loanable capital consists of the savings of those who are not in position to use their savings in business. Most wage-earners and salaried persons are—*ex vi termini*—not in business for themselves; hence they must lend their savings either to individuals, or to partnerships, or to corporations. To lend to an individual, however, unless with the collateral security of a mortgage of his property—a protection not available for small sums and short terms—is for most people a difficult and perilous transaction. One man may with good reason have con-

fidence in another; but it is seldom possible for a number of persons to have the same rational grounds of confidence in the same individual. Nor can an individual advantageously supply himself with what capital he needs by borrowing small sums from a multitude of lenders, unless, indeed, he is a banker by profession. There are, it is true, many individual bankers, but their number has decreased, for the simple reason that banking—that is, borrowing and lending other people's capital—is a business requiring permanency in its conditions. The individual man, however, is subject to the infirmities of disease, old age, and death. Those who have lent him money, therefore, may find themselves embarrassed by contingencies of very frequent occurrence, and they will secure themselves against such embarrassments if any practicable method is offered.

There have been many partnerships engaged in banking, and formerly on a very great scale. By virtue of numbers, their business is placed on a permanent basis; but they suffer from another difficulty. Under the law of partnership, one member may not only make away with all the partnership property, but also exhaust the private fortunes of all the members in payment of its debts. To lend one's money to a firm of

bankers, therefore, implies confidence in the integrity of all the members of the firm—a confidence for which ordinary people can seldom offer any rational justification. On the other hand, the fact that every partner is the unlimited agent of all the others in matters not plainly foreign to the partnership business, makes a great many people extremely reluctant to go into partnership. It is a great deal easier to get into this relation than it is to get out of it, and when men have acquired great wealth, they are often unwilling to risk even a remote possibility of having it all swept away. Hence, old banking firms have in modern times often become incorporated, and not many new ones have arisen to take their place.

Corporations doing a banking business are not only more permanent but also safer repositories of savings than individuals or partnerships. A partnership may be utterly ruined by the folly of one of its members, but the corporation is limited by law, nowadays at least, to such an extent that folly must be supplemented by fraud in order to dissipate its assets. Many deplorable instances of this pernicious combination have taken place, but if we take into view the great number of these financial institutions, the percentage of loss from both errors of judgment and

positive defalcation is comparatively small. Although not commonly spoken of as banks, insurance companies of various kinds really carry on the banking business, and we can hardly conceive the possibility of their functions being discharged by individuals or partnerships. It is certainly not too much to say that without the aid of savings banks, insurance companies, and corporations of similar character, vast amounts of capital that are now collected and made available by union would not only not be collected, but would never be saved at all. For without opportunities for deposit, savings become nothing but hoardings, and the legitimate desire to contribute to and to participate in the prosperity of the country degenerates into mere anxiety for personal security.

As corporations have become indispensable means of collecting savings, so they are equally necessary for their utilization. It can seldom be the case that an individual or even a partnership can create a railroad or carry on any enterprise on a similar scale. The embarrassments already referred to would make it difficult to borrow capital, and would make it especially difficult to procure the participation of those who now take shares of stock. Very few people would be willing to take an interest in a railroad, or in a large manufacturing concern, if they would thereby

make themselves liable to the extent of their whole property for its debts. These enterprises require such masses of capital as only the multitude possesses, but if the multitude were legally in partnership the situation would be utterly intolerable. If one partner became insolvent, his interest in the partnership might be attached, and if he died or retired it would have to be adjusted. Complications would arise if he wished to sell or mortgage it; in short, the difficulties that would be encountered would be innumerable. To sum the whole matter up, by means of corporations countless numbers of people are able to invest portions of their savings in all sorts of enterprises with the assurance that at the very worst their whole property can not be lost, but only those parts of it severally invested in these enterprises. In other words, they can make use of the economic advantages of partnership, or co-operation, without subjecting themselves to the abnormal perils with which the application of the primitive rules of the common law to modern affairs has surrounded this form of enterprise.

We have dwelt on the part played by corporations in collecting and applying loanable capital, but it is evident from what has just been said that they enable those who make savings to derive profits from them as well as interest. Men

will lend on collateral security to individuals and partnerships, but they will not put their money into the business of an individual or a partnership. Thus, while the amount of loanable capital created would be much smaller if there were no corporations, the amount of capital invested without collateral security would also be diminished. It is highly unreasonable to suppose that new enterprises would be undertaken on anything like the present scale were capitalists precluded from availing themselves of the corporate form of investment. The self-interest of individuals becomes an indispensable condition of the progress of the community. Every new venture is necessarily attended with some risk of failure, and profits commensurate with the risk must be anticipated, or capitalists will have nothing to do with it. But these new ventures have beyond question enormously increased wealth, and with it the recompense of labourers. Hence it is a distinctly injurious policy to say to those who have small savings to invest, that if they invest them in a corporation they shall be fined for it. The result must be not only a diminution of the amount of capital seeking such investment, but also the surrender of the field to the most unscrupulous members of the investing or exploiting class. There are objections to the

policy sometimes adopted in certain communities of paying a bounty in the shape of exemption from taxes to manufacturing corporations operating within their limits, but this policy is more enlightened than that of positive discouragement.

It is sometimes claimed that a great boon is granted to capitalists in allowing them to form corporations, and that the community ought to be paid for its liberality. This seems to be a survival of the mediæval idea that all trade exists only by the grace of the sovereign, and that manufacturers and merchants ought not to be allowed to carry on their pursuits without special permission. But unless those who raise this objection are prepared to maintain that the existence of corporations is, on the whole, injurious to the community, instead of distinctly beneficial, they do not deserve much attention. Doubtless it is a great convenience to capitalists to obtain the permanency of corporate existence, and to avoid having the business in which they are engaged broken up whenever one of their number dies or becomes insolvent; but unless the public can show that it is the gainer by maintaining inconveniences and hindrances in general, it need not arrogate any special virtue to itself for permitting their removal. The same is true of the

limitation of stockholders' liability for corporate debts. It is not a question of having our modern business carried on by companies of unlimited rather than limited liability; it is a question of having it carried on at all. If men can be relieved from unlimited liability, they will exploit every industry that offers a possibility of profit. If they can not be so relieved, most of them will have nothing to do with undertakings where the penalty of failure is so terrible. Creditors are no sufferers from the limitation of stockholders' liability for corporate debts. Probably more creditors lose money by the failure of individuals and partnerships than of corporations, and, except in the case of firms of well-known wealth, lenders do not count much on the private fortunes of partners as security. For a number of reasons the financial condition of a corporation is much more open to discovery than that of the members of a firm. The latter are frequently found to have lost their property before their reputation for wealth was affected; but it is far more difficult for a corporation to conceal its condition from those of whom it desires to borrow. Even if the limitation of liability were attended with more injury to creditors than is found to be the case, this injury would be far outweighed by the gain to stockholders and to the community

through the enlarged opportunities for business created by this exemption.

It follows, therefore, that the demand of the public for greater benevolence on the part of stockholders in corporations than on the part of individual employers of labour is not justified by anything in the nature of the functions of corporations. Stockholders may reasonably claim to make the same profit on their capital that is made by individuals or partnerships, and if they are called upon to pay labourers at higher rates than other employers, the formation of corporations will be discouraged. By insisting on the moral obligation of all stockholders to pay these higher wages, the community might thus bring about a positive reduction of wages in general; for if the business of a corporation fails to be profitable, the stockholders will certainly terminate it. The funds which would have produced a perennial supply of wages will thus produce no wages at all, and the attempt to maintain abnormal wages on moral grounds will result in lowering them below the normal figure. In short, to hinder the establishment of corporations is to obstruct the investment of capital; and to obstruct the investment of capital is to diminish the employment and the wages of labourers.

These conclusions may seem to require some

modification in the case of a corporation that has accumulated a surplus. The stockholders of such a corporation, it may be thought, can afford to make some contribution out of their exceptional profits to the payment of exceptional wages to their employees. This opinion, however, is based on a misapprehension of the nature of a surplus, and on a confusion of the wealth of a corporation with the wealth of its stockholders. Concerning surplus capital, it is to be remarked that, as a rule, the constitution and the policy of corporations contemplate permanency. Their promoters engage in a business with the expectation that the business will continue indefinitely, and they are generally compelled to convert a large part of their stock into fixed capital. If the managers are competent, they are well aware that great fluctuations in prices and in the volume of trade have occurred and will occur. It becomes of the first importance, therefore, to accumulate a surplus. If profits are only normal when general trade is good, it is highly probable that in bad times they will altogether disappear. If they are large, it still remains probable that they may be greatly cut down. Prudent managers, therefore, bend all their efforts to put aside a surplus, or insurance fund. Such a fund will enable them to meet their obligations

easily in times of disaster, and to pay some dividend at least to the stockholders; and it will also enable them to maintain the wages of their employees at a figure somewhat above that which is current—a result obviously advantageous to the men, if not to the masters.

It seems to be altogether justifiable, therefore, when a corporation is making abnormally large profits, for the managers not to increase wages to a corresponding extent. If they are wise, they do not increase their dividends correspondingly, and they can not wisely do so with wages. Should they do so, they would very likely be unable, in periods of distress, to maintain wages even at a low rate, and they might have to close their works altogether. In theory, it might be more desirable for workmen to exercise this foresight for themselves, and insure against loss of wages by saving from them when they were abnormally high. In practice, this is done by prudent workmen; but there are advantages, even in theory, in the other plan. At all events, it is an established custom, for it does not admit of question that the country is full of corporations, many of them large, that have for years, whether they were making or losing money, kept the main body of their workmen steadily employed. Doubtless many managers

pursue a different course, from policy or from necessity; but their management is perhaps not, in the long run, so successful, nor is it proper to blame large corporations as a class for the acts of certain of their agents.

As to the second error above referred to, it is evident that the connection between the wealth of a corporation and that of its stockholders may be extremely slight. Most investors are careful to regard the maxim not to put all their eggs in one basket. Neglect of it soon teaches them its value. In periods of business depression nearly every one finds that some of his investments turn out badly. In some cases he loses all that he has invested; in others he loses all return from it for a period; in still others the rate of dividend is reduced, and in some it is maintained. By means of these latter wise or fortunate investments he is able to make shift until the times improve. But if the corporations that have accumulated a surplus for the purpose of keeping up the payment of dividends when they are not earned are to devote this surplus to paying higher wages than are earned, their stockholders may be brought to great distress. The Pullman Company, for example, had some 4,200 stockholders. Doubtless many of them were to a great extent dependent on their

dividends from this company, and relied upon the surplus as insuring their continuance. Many of them probably were women, and unable to support themselves. There is nothing unreasonable in the supposition that most of them suffered a material diminution of their income from other sources. Perhaps Mr. Pullman had himself made some investments that were disastrous. Some of these stockholders may even have found that all their dividends except those from the Pullman Company were cut off.

Under such circumstances, which are probably the actual circumstances, it seems difficult to maintain that these stockholders, as a class, were under any moral obligation to relinquish their dividends in order to continue the payment of wages at the rates prevalent in prosperous times. No doubt some of them were abundantly able to forego their dividends for this purpose; but it is equally certain that some of them were altogether unable to make such a sacrifice. But if there was any moral obligation in the matter, it must have been an obligation of all the stockholders, and not of a part. It would be a duty of the stockholders as such, and not as individuals. The wealthy stockholders may or may not have been benevolent as individuals, but that is irrelevant

to this discussion. What they did with their dividends after they got them we need not inquire; but it is obviously idle to assert that the rich stockholders of the Pullman Company ought to have received a lower rate of dividend than the poor ones. The discrimination required for the application of such a rule would be altogether too severe a task for human intelligence.

It is important to add that the securities of corporations are to an enormous extent held by insurance companies and savings banks, and that probably most of the deposits in these institutions are the property of working people. There is nothing improbable in the supposition that some of the stock in the Pullman Company was held by savings banks as a means of investing these deposits. Many savings banks have made much worse investments. If we recognise a moral obligation on the part of the Pullman stockholders to apply their surplus in hard times to the payment of abnormally high wages to their workmen, it follows that depositors in savings banks holding this stock are affected with this obligation. Hence we reach the conclusion that such of those depositors as are working people, earning perhaps less than the ordinary rate of

wages, are morally bound to relinquish some of their gains for the purpose of paying other working people more than the ordinary rate of wages. Such a conclusion, however, can hardly claim to appeal forcibly to the conscience.

The supposition which we have just considered is not to be rejected as speculative. It is well known that fiduciary institutions prefer as investments the securities of corporations that maintain a surplus. They justly regard it as of the greatest importance to invest their depositors' money in such a way as to make it bring in a regular return. If they understand that strong corporations are to recognise such a moral obligation as we are considering, they will experience the greatest perplexity. They will apprehend that the market value of the securities of such corporations must fluctuate violently according to the condition of business, and that no certain return can be expected from them. Under such circumstances the rate of interest paid to depositors would become variable, and their confidence in the safety of their deposits would be justly shaken. It can hardly be necessary to enlarge upon this further; and when we consider the vast investments of the insurance companies, the trust companies, hospitals, libraries, colleges, churches, the trustees of estates, etc., we may

well hesitate to admit the existence of a moral obligation which would demoralize all fiduciary relations, and introduce uncertainty and speculation into those departments of business from which it is the glory of our civilization to have largely expelled them.

In truth, the "solidarity" of our economic world is far more complete than we are apt to suppose. Machiavelli warns us that no one who begins an innovation in a state need expect to stop it at his pleasure or regulate it according to his intention. We can not insist upon the assumption of new responsibilities in a particular case without invoking principles the application of which may produce the most mischievous confusion. The present condition of society is the result of innumerable causes, acting and reacting with such complexity as to baffle all our attempts to analyze their particular influences. In the industrial world the part played by corporations has gradually become a very great one, and its magnitude is appalling to many minds. The direst possibilities are foreseen, and hasty and ill-considered preventives are grasped at. But enough has been said to indicate that the gain from the introduction of the corporate form of industry has been very real, while the evil resulting from it has been largely imaginary. To

proscribe or discourage it, and to attribute moral delinquency to those who engage in it, are very revolutionary proceedings, the effect of which on the whole community can not but be extremely grave.

CHAPTER VII.

PERSONAL RELATIONS IN CORPORATE INDUSTRY.

A CERTAIN despotic brutality is commonly believed to characterize the dealings of corporations with their employees. As we have seen, De Tocqueville spoke with much seriousness of the prospective harshness of modern industrial relations. We know that men are always prone to abuse power, and there is no reason why agents of corporations should be free from this temptation. Probably no corporation has ever been more violently accused in this regard than the Pullman Company, and in its case we are fortunately in possession of the evidence for and against the charges, which we shall presently consider. Apart from this case, evidence is obtainable with great difficulty. Newspaper reports are inaccurate and mendacious, as well as characterized by ignorance of the worthlessness of hearsay testimony. Assuming, however, that peculiarly harsh personal relations between masters and workmen result from the existence of

industrial corporations, there is certainly some ground for contending that their existence is not an unmixed blessing. Those who choose to employ their wealth in this way may thus incur some obligation to mollify the severity of present conditions by the sacrifice of a portion of their gains. In other words, the mere establishment of the relation of master and servant, when the master is a purely legal entity representing the action of a number of masters by means of hired agents, although in some respects a public advantage, may be in others a public nuisance.

The substitution of the agent, or superintendent, for the true owner in the case of corporate industries, may be compared with the substitution of the overseer, or slave driver, for the master of the slave. The capitalist may be a humane person, incapable of oppressing those who directly work for him; but when he intrusts his wealth to the hands of a paid agent, he becomes concerned only in the pecuniary results, and ceases to observe or be interested in the condition of those whom this agent employs. The reader of these words may be in the receipt of income from many different corporations; but it is a chance if he be acquainted with even so much as the name of a single one of their employees. No matter how kindly his

disposition, it is impracticable for him to display it, and he must generally content himself with the hope that the corporations in which he is interested are managed by just and humane officers.

It admits of no question that the dealings of a corporation with its employees are characterized by greater rigidity than the dealings of individual masters with their servants. This is a necessary consequence of the larger scale on which the business of corporations is conducted. The individual who employs two or three men can control them by his personal influence, and does not need to lay down a body of rules for their observance. But when a large number of men are employed the conditions are very different. Punctuality then becomes essential. If some of the men are late in coming to their work, the whole force may be kept idle. In a manufacturing industry the machinery must start promptly and be kept in motion continuously. In the business of transportation there can be no delay in starting trains or cars. A system of rules is necessary, and it must be strictly enforced. Negligence, idleness, and inefficiency must be checked by fines and penalties. In short, whenever large numbers of men are engaged in a common employment, discipline must be maintained; and

discipline is in itself odious to mankind. It involves a surrender of liberty, which may be indispensable, and in the end advantageous, but which is intrinsically unpleasant. The father of a family may secure the obedience of his children without making his control evident; but if he sends his children to school with others, the teacher can scarcely avoid insisting upon their compliance with formal regulations; and the same principle applies to every aggregation of humanity.

In such cases we easily recognise the truth that a partial surrender of liberty on the part of individuals results in a positive increase of the amount of liberty collectively enjoyed. The same truth must be recognised in the employment of human beings in corporate industries. The discipline enforced is a necessary condition of their effective production—that is, of their employment at all—and if it is not needlessly severe it furnishes no legitimate ground of complaint. We have seen that the compensation of labourers employed by corporations is probably on the whole somewhat greater than that of the employees of individuals, and the additional compensation must be considered—in view of the fact that the service of corporations is generally sought by labourers—as a sufficient equivalent

for whatever loss of liberty may appear to be involved in the submission to discipline.

If we would inquire whether, as a matter of fact, the rules imposed by corporations on their employees are unnecessarily harsh, we should find some evidence, at least, showing that on the whole this is not true. Dishonesty among the employees of transportation companies intrusted with the collection of fares is notoriously one of the greatest difficulties with which the managers of these companies have to contend, and it requires drastic remedies. Wherever speculation is feasible, experience proves that it must be guarded against, and the offence is so serious that hardly any precautions can be excessive. Incessant quarrels over these and other disciplinary regulations take place, some of them of such extent as to arouse public interest. But when these disturbances are investigated by commissions, the official reports generally show that the evidence offered by dissatisfied employees is very weak. Much of it proves to be actually false, while the acts of the employers that occasion complaint are found to be not beyond the legitimate exercise of discipline. It is true that they are often misunderstood, and that trouble might have been avoided by conciliatory methods on the part of employers. On

the other hand, the acts of the men are often too hasty and violent to give opportunity for mediation or explanation, while they are sometimes positively malicious.

The Pullman strike, for instance, was precipitated by the act of the company in laying off a number of workmen temporarily, because the work on which they were engaged was completed and there was at the time nothing for them to do. Among this number were two or three who had taken part in an appeal for higher wages, and the impression became prevalent among the workmen that these persons were permanently discharged because of their participation in this movement. This belief led to an immediate strike, without any demand for explanation, and so far as this point is concerned the acts of the employers seem to demand no criticism.

It is perhaps commonly believed that it was the policy of this company to compel its employees to live in its "model tenements" and to pay rent for many conveniences and luxuries which they may or may not have desired. That this belief is ill founded appears from the fact that at the time of the strike only about one third of the employees of the company were its tenants. Furthermore, an examination of the regulations enforced on the company's property

will satisfy any one conversant with such matters that they were not only judicious but necessary. It is impossible to maintain the character of a "model" tenement without compelling dirty and disorderly people to conform to a higher standard than that to which they are used. That is the very object aimed at in the construction of such tenements. Whatever surrender of liberty is involved in such conformity is, from every point of view, well paid for. No workingman can properly appeal to the sympathies of the benevolent if he regards the prohibition of liquor shops and bawdy houses in the neighbourhood of his abode as an odious manifestation of despotic power, and prefers in the name of liberty to bring up his children in the midst of all manner of physical and moral nuisances.

Considering the advantages enjoyed by the tenants of the Pullman Company, their rents do not seem to have been higher than those paid in adjoining towns. As a matter of fact, the rents charged by the company amounted to little more than one half what would have been a fair return on the investment if it had been regarded as purely a matter of business; and if the rents were not reduced when wages were lowered, it is to be remembered that they had never been increased during the preceding years of prosper-

ity and high wages. Nor was the collection of rents enforced with anything like the severity commonly found necessary by landlords. At the beginning of the strike its tenants owed the Pullman Company some \$50,000 for rent due and unpaid, and at the end of it this sum must have been greatly increased, as no eviction for this cause had taken place. Only a small portion of this indebtedness, it is safe to say, has ever been paid, and under such circumstances the complaints of intolerable oppression in the exaction of rents scarcely deserve serious attention. At all events, the tenants of the Pullman Company, like the ancient Hebrews, appear to have judiciously despoiled their oppressors as a preliminary to making their escape.

It is a mistake to suppose that the managers of corporations have, as a rule, no personal friendly relations with their men. In corporations of moderate size the reverse is very commonly the case, and many provisions are made for the comfort of employees, both in health and sickness. The chief managers of large corporations, it is true, can have little opportunity for direct acquaintance with the great body of the workmen in their service, but in such cases there are necessarily many subordinate managers whose duty it is to know the characters of the

individuals whom they direct, and to whom it is unjust to impute inhumanity without more evidence than has been hitherto produced. The testimony as to such inhumanity is generally of the vaguest kind, and often demonstrably false. No doubt, as was observed above, the exercise of power by one human being over another is never unattended with the danger of abuse, and is frequently abused. But there is little reason in the nature of things why the agents of corporations should be more cruel than others who employ labourers directly, and it is the opinion of those conversant with the factory acts, both in former days and at present, that workmen are better treated in large establishments than in small ones. Their very numbers make it practicable to furnish conveniences which the employer of a few hands could not afford.

Many of our great corporations maintain libraries, schools, and hospitals for their men, and manifest a much greater degree of solicitude for their welfare than the public that obtains its information from the newspapers would suppose. Even the vilified Pullman Company kept a physician to attend to the injuries of its employees, and paid their expenses while in hospital, as well as the charges of specialists when their services were needed. While managers

may go somewhat further in such benevolence than the technical requirements of their trust would justify, it is doubtful if an instance can be produced where stockholders have made complaint of their liberality, although there are many where they have encouraged it.

CHAPTER VIII.

CORPORATIONS POSSESSING MONOPOLIES.

SOME reasons have been already given for the conclusion that a corporation enjoying a monopoly is unlikely to pay the men in its employ lower wages than they can elsewhere obtain. It was explained that, according to the common view, monopoly consists in the enjoyment of excessive profits—that is, of profits greater than are generally obtained by capital, after making allowance for all conditions tending to produce inequality of returns. Where monopoly of this kind exists, it is undoubtedly believed by many persons that exceptional gains should not be the absolute property of the owners of the capital employed, but that the workmen have some claim to them. They reason that the product of the industry is the result of the co-operation of labour and capital, and that if this product is exceptionally great, it is inequitable for the employers to appropriate the whole of the exceptional profit made upon it as their share, leaving

to the labourers only the ordinary rate of wages. Those who entertain these opinions seldom attempt to determine the proportion in which the abnormal profits ought to be divided; but they are convinced that justice requires that some division be made, and they are disposed to encourage all professed attempts to bring it about, without perhaps considering how far such attempts are really calculated to promote justice.

If we reflect upon the problem, however, we are at once struck with the fact that unless the exceptional profits made by a monopoly are in some way due to exceptional exertions on the part of the labourers employed, justice forbids these labourers to claim any part of them. We are not considering their claims as a matter between them and their masters, but as members of the labouring class at large. If the men employed in a certain industry receive higher wages than other labourers, although their sacrifices are no greater, it is plain that these other labourers may properly be dissatisfied. We can recognise here no lord of the vineyard, doing as he will with his own, for we must maintain as our standard of justice the equality of reward with sacrifice. To contend that justice to labourers is promoted by enforcing the exceptional compensa-

tion of those who have rendered no exceptional service involves us in obvious inconsistency.

According to the supposition commonly made, the monopolistic gains are secured by levying a tax on the purchasing community. By some inequitable means the ordinary laws of supply and demand are controlled, and all buyers are compelled to pay an unreasonable price for the monopolized commodity. To insist that any part of these unjust gains justly belongs to those labourers who, by the customary degree of exertion, have assisted in producing them, is not only contradictory on its face, but is also extremely well calculated to aggravate the discontent and envy already prevailing. The favoured class of labourers would then occupy the position of participating in profits extorted from their less fortunate brethren. They would perhaps not be so unselfish as to refuse to participate in gains of this character. Hardly any class of men appears in practice to carry unselfishness to such a degree as this. They would defend their action by various sophistical arguments, the most forcible of which would be that if they did not secure these profits their employers would, and that therefore neither the community at large nor any other class of labourers could suffer any injury. The prejudice

against monopolies is so strong as to make such arguments specious, but it is a travesty of justice to offer them in its name. The profits of the monopoly are really exacted from the purchasing community, including workmen, and workmen that participate in them must confess that their increased rewards are derived from a fund created by decreasing the rewards of their fellows.

Were there any reason to think that the participation of the workmen in the profits of the monopoly would tend to extinguish these profits, this conclusion might require some modification. Such participation, however, would have a directly opposite tendency. Under our form of government, where all workmen have the suffrage, it would be peculiarly dangerous for those employed in a monopolized industry to feel that they are to be the gainers by maintaining its excessive profits. Their employers are under continual temptation to influence their political action—a temptation which, it must be said, they have sometimes been unable to resist. So long as these workmen receive no exceptional remuneration, the scepticism with which they naturally listen to the representations of their employers may be sufficient to preserve their independence; but if they became convinced that

an appreciable part of the excessive gains of the monopoly really fell to their share, they would almost infallibly combine with their masters to perpetuate these gains.

Under universal suffrage these combinations might attain such strength as to be irresistible. They would dictate legislation, and make the attempt to overthrow privilege hopeless. But if justice is violated by the existence of monopolies, the friends of justice must take care to do nothing to increase their power. It is the aim of true reformers to do away with all exclusive privileges, as tending to diminish liberty, and to hinder the attainment of equality of opportunities for development. Success in this endeavour is possible under our form of government only through the generous and enlightened co-operation of the working people. They must come to understand that progress consists in enlarging the opportunities of all, and not in securing special advantages for a few at the expense of the remainder. Hence it is altogether deplorable if they are led to suppose that the cause of "labour" is advanced by its obtaining a share of inequitable gains. The condition of labourers as a whole can be improved only by the increase of their aggregate remuneration. It is true that this aggregate must be made up of the remunera-

tion of individuals; but it is not true that it can be enlarged by permitting certain individuals to remunerate themselves by appropriating from the common dividend a share out of proportion to their services in creating it.

On this account the growth of the labour unions must be regarded with some apprehension. They have probably been able in some cases to obtain higher wages from their masters than the services of their members were worth in the market, and if they have accomplished this without depressing the wages of other labourers, their success may not have been in conflict with justice. But it is the practice of most of these unions to restrict their membership, and to prevent labourers who are not members from working at their trade. So far as they are successful in this, these excluded workmen are forced into other industries, thus causing in these industries an unnatural supply of labourers, whose competition leads to a reduction in the rate of wages. Since it is not easy to reconcile this result with justice, the members of the unions are naturally tempted to claim that outside labourers are their inferiors, and they seem very quickly to acquire the jealous and hateful temper of other monopolists. When we consider that in Great Britain, where the trade

unions have attained their highest development, they do not comprehend more than a tenth of the labouring class, it is easy to see that they constitute an oligarchy which holds power by a precarious tenure, and which is therefore only too ready to resent criticism and opposition.

There is nothing surprising, therefore, in the desire expressed by many of the representatives of these unions, that the Government should assume the control and ownership of their industries. Were they satisfied that their labour received no higher compensation than that of similar labour in general, they would have no particular inducement to make this compensation a permanent charge on the whole people. Since they desire to accomplish this result, it is reasonable to suppose that they expect in this way to make sure of the continuance of some exclusive privileges, which they may otherwise lose. Unless they can show that their possession of such privileges is somehow beneficial to those who are excluded from them, they must make their appeal in some other name than that of justice.

The same criticism applies to the payment by public corporations of wages and salaries higher than are paid for similar service by private persons. The revenue of these corporations is derived from the income of their citizens.

One is increased by diminishing the other. If the Government pays higher wages, it can not employ so many men as would have been employed with the same fund in private hands; and the diminished capital in private hands must be distributed as wages among a relatively larger number. Government officers and employees are thus favoured at the expense of other workers. A privileged class of citizens is created in violation of the principles of our Government as well as those of justice.

“It is evident from what has just been said that the existence of a class of employees favoured by Government arouses envy. The question is not to be complicated with any assumption that the employees of Government are a superior class. In so far as they are superior they are entitled to higher compensation. If their fitness has been determined by competitive examination, they may justly claim preferment over those that are proved unfit. But the comparison must be made not between the fit and the unfit, but between the fit who get the places and the fit who do not. It is to be expected that the incapable will be envious. Had they sufficient magnanimity not to be envious, they would not be very apt to be incapable. Such virtue would imply ability. Their envy, how-

ever, while it may be a serious evil so long as appointments are made without regard to merit and as rewards for party services, is nothing that needs be considered under the competitive system. It is a part of their general discontent with the universe and their disapprobation of the processes of natural selection. They can not succeed because they do not deserve to succeed; and if we have a system under which desert brings success, we can not relinquish it because of the complaints of the undeserving, no matter how much we may pity them.

“ It is otherwise when men are excluded not because they are unfit, but because others have crowded in before them. We are familiar with the spectacle of a crowd of applicants for every position under Government, and we know that often many of such applicants are unfit for any position. We are not yet familiar with the spectacle of a crowd of meritorious applicants; but if the compensation attached to such positions is greater than can be earned elsewhere by like service, this spectacle will infallibly be presented. If this compensation were no more than what could be otherwise earned, the number of office seekers would be diminished until the supply was equal to the demand. But if this is not the case, those who fail to secure office through no

fault of their own will naturally be envious. They will be angry at what they properly regard as injustice, and their grievance will have dangerous consequences.

“For those who by favour or fortune have secured privileged places will do what all privileged classes have done in the past. They will be apprehensive of losing advantages to which they feel their title is of doubtful justice, and they will combine to protect themselves. This is no speculative peril. The Legislature of New York has more than once responded to combinations of this kind with increases of salaries, and such increases have been procured by corrupt means and are available for corrupt purposes. Were the salaries only such as are paid in the competitive market, such corruption would be impossible. Rather than pay assessments, office-holders would run the risk of being removed, considering that they could do as well elsewhere as in the public service. But if they know that their official pay is greater than they can obtain in private life, the temptation is strong to buy security. And as those who are in will pay to stay in, so those who are out will pay to get in. They will beset the Legislature with their appeals. They will insist upon the creation of new offices and the extension of governmental

activity. And their opponents will labour under the immense disadvantage of having to defend a system which is indefensible, and to justify what is unjust." *

We have hitherto adopted the popular definition of monopoly as consisting in the enjoyment of unusually large profits. But, as will be shown later, such profits may be the result of more economical production and superior business management, in which case they may involve no injustice. We must therefore add to the popular conception the idea of privilege—that is, the possession of advantages which enable those who have them to obtain exceptional gains without any equivalent service or sacrifice. Such monopolies may be rudely classified as natural and artificial. What may be called a natural monopoly arises when exclusive privileges come to be possessed by certain individuals as an incidental result of human laws and institutions. The laws providing for the acquisition and transfer of property, for instance, may often create a species of monopoly in the ownership of land through the operation of the economic principle of rent. On the other hand, a monopoly produced intentionally may be properly

* Extracted from an article in the *Forum*, September, 1895, entitled "Municipal Progress and the Living Wage."

denominated artificial. Such monopolies are deliberately created by bounties and by customs duties on the importation from abroad of goods of the same nature as those produced at home. To determine what is required by abstract justice, in the case of these artificial monopolies, is a matter of no little difficulty. It is evidently the intention of the Legislature, and presumptively therefore of the majority of the people, to insure exceptional profits to certain classes by restricting the competition to which they would naturally be exposed. The acquisition of these profits by such persons is therefore precisely what was in contemplation by the Government, and it is inconsistent for the public to complain of it as unjust. It may indeed be denounced by those who oppose such legislation in general, but, according to the supposition, public opinion is against them.

We must therefore conclude that, according to the common standard of morality, the profits of these artificial monopolies are not unjust; and, if they are not unjust, it is absurd to maintain that justice requires those who receive them, whether corporations or individuals, to divide them with their workmen. The latter may indeed set up some tacit understanding that they should share in these gains, but there is nothing

in the law to justify their claim. It is, and always has been, the policy of protective statutes to subsidize employers and not workmen, the assumption being that the benefits arising from this policy were diffused throughout the country, and that if the workmen in the protected industries obtained the ordinary rate of wages they should be content. There may be some points of honour in these cases, as in others arising from the division of spoils; but enough has been said to show that justice is not to be invoked in such disputes.

Corporations enjoying natural monopolies are at first sight without defence to the charge of making unjust gains. They can plead no deliberate legislative sanction for their exactions, for the institutions of which they are the outgrowth were not established for the purpose of creating exclusive privileges. So far, therefore, as their profits are in excess of the ordinary returns of capital, and not due to any exceptional ability on the part of their managers, it does not seem possible to deny that they are unjust. No evidence, however, is forthcoming to show that such corporations exercise any greater control over their workmen than other employers, and indeed we have seen reason to suppose that the compensation paid by them will be somewhat

higher than is customary. Hence, upon the grounds already explained, the particular set of workmen employed by these corporations have no claim to participate in their exceptional profits. Such profits must be regarded as in equity belonging to the whole community, out of whose revenue they are collected, and not to any particular members of that community. The attainment of justice must in such a case consist either in the distribution of these profits among the whole community, or else in their total suppression. The corporations should either be subjected to taxation of such an amount as will equal their excessive revenue, or else they should be deprived of the power to secure this excessive revenue.

As a matter of fact, the nature and extent of these excessive gains by corporations are commonly exaggerated. So far as the ownership of land is concerned, which is regarded by many persons as the greatest of all monopolies, individuals and corporations stand on the same footing. If it is unjust for the latter to own land, it must be for the same reasons unjust for the former; and since we are at present considering only such charges of injustice as apply to corporations and not to individuals, we need not dwell on this controverted question. Apart from

this monopoly, we should find it difficult to name many corporations that possess exclusive privileges to any great extent, or at least to any greater extent than individuals. The most conspicuous monopolies in the public view are the railroads, and their power to charge excessive rates is unquestionably due principally to their possession of advantageous sites and routes. But, conceding that the monopoly of railroads is due to other causes, we find on examination that it has been confined within very narrow limits. It is notorious that the rates charged in this country are much lower than those that prevail elsewhere, and it is equally notorious that a vast amount of the capital invested in railroads, far from producing excessive profits, actually produces no profit at all. It is true that the figures expressing railroad capitalization are largely fictitious, but, making allowance for this, it remains true that the average returns on the capital actually expended are less than the rate of profit ordinarily expected by individuals. It is true, also, that the wealth of many railroads has very greatly increased through the increase in the general wealth of the country and the growth of its population. Such increase, it must be remembered, has also taken place in the wealth of individuals, and their property in this increase has

not been assailed by the Legislature. The case is altogether different with railroads. Their profits, in spite of their apparent monopolies, have been continually reduced by legalized competitors, their charges have been reduced by statute, and their property lessened by taxation.

To state the figures that support these observations would be impracticable in an essay of this kind. A single illustration, however, will indicate the character of these figures. Mr. Blackstone, the President of the Chicago and Alton Railroad, recently called attention to the fact that in 1877 all the property in the State of Illinois, except railroads, was assessed for taxation at a valuation of about \$892,000,000, while in 1895 the valuation was only \$753,000,000—a decrease in nineteen years of almost \$140,000,000, or about 15½ per cent. The property of the railroads in the State was valued at \$37,141,000 in 1877, and at \$79,231,000 in 1895, an increase of 113½ per cent. It is true that the actual value of the railroads has increased, since their mileage is 47 per cent greater, and their net earnings 40 per cent larger; but, on the other hand, it is notorious that the value of other property has also very greatly increased instead of diminishing. Were it otherwise, it would be altogether impossible to explain the enormous increase in

the number of passengers and the amount of freight carried. The growth of the city of Chicago has been prodigious, but property appears to be assessed there at a nominal figure. It would be far from incredible that between 1877 and 1895 property in Illinois increased in actual value by an amount several times greater than its assessed valuation.

The proportion of taxes borne by the railroads is therefore far greater than formerly, and in the year 1894 it amounted to about $77\frac{1}{2}$ per cent of the total sum of the dividends earned in Illinois by the railroads operating there. From the report of the railroad commissioners of that State for 1894, according to Mr. Blackstone's statement, the railroads therein earned \$1,720,000 less than their fixed charges, while their debit balances were increased by \$12,978,000. They transported over 83,000,000 passengers during that year, the average journey being about 27 miles, and the average fare about $8\frac{1}{4}$ cents less than the average cost of carriage. Shortly after making this report the Railroad Commission issued an order for the reduction of the rates on freight. Even if these figures are not altogether accurate, it is impossible to maintain that they indicate the existence of any oppressive railroad monopoly. They rather indi-

cate the confiscation of railroad property, and there seems to be much reason in Mr. Blackstone's complaint that "the people are as confident that they have the right to demand and enforce railway service upon such terms as may be in accordance with their will and pleasure as ever men were of their right to demand and enforce services on like terms from persons who were subject to their power." This may fairly be characterized as the obverse side of "industrial slavery."

Similar complaints are heard from other States; but it is not necessary to accumulate evidence on this point. Those who examine the returns of railways find many suspensions of dividends, great decreases of revenue, frequent reductions of operating expenses; but they seldom find any reduction of taxes. These remain the same, or are increased, no matter how much the value of the property declines. The aggregate amount of these taxes is very large; but the newspaper writers, who furnish the common people with all their information, seldom allude to it. They are more inclined to raise the cry that owners of railroad stocks escape taxation, although they should know that the property from which such stockholders receive their income frequently pays larger amounts in taxes than in divi-

dends, and probably, as a rule, pays at a higher rate than property owned by individuals.

While these complaints of unjust taxation are beyond question to a great extent well founded, they fail to make allowance for a fact of much importance. The deplorable condition of these railways is primarily due to their own contests. In other words, so far from enjoying a monopoly, they are the victims of excessive competition. In proportion to our population, we have from four to six times as many miles of railroad as any European state. The charges for transportation on the foreign railways are generally at least one half more than in this country, and frequently double what they are here. At the same time, the wages paid are probably little more, on the average, than half what are paid by our roads.

Under such circumstances it is evident that investors in American railroads can hardly expect the ordinary rate of profit. Too much railroad has been built for the business to be done. The legislatures, it is true, have prescribed low rates, but the railroad managers, in their fierce competition for traffic, had set them the example. We are not at present concerned to determine what was required by justice under such conditions, but we can not fail to be struck with

the severity of the check which competition exercises on monopoly. It may be laid down as a general rule that if the profits of a natural monopoly are very excessive, they will be of brief duration. The amount of capital ready for investment in new enterprises is now so great as to be a constant menace to the profits of those already established. The progress of invention is so rapid, and the improvement and economies of production are so extensive, as to make existing machinery continually obsolete. It follows from this that in considering whether the profits of any enterprise are excessive, we must take into view their probable duration. In many cases we shall find that after a short period of large profits the enterprise has ceased to make any at all, and has finally been abandoned, at the loss of nearly the whole capital invested. While this result seldom takes place with a railroad, nothing is more common than for the original stockholders to lose all their investment, or to have their profits cut down to a very insignificant figure. Hence it seems reasonable that those who are willing to assume the risk of investing their wealth in such a way as to be inextricable—of transforming it into embankments and tunnels and bridges and excavations, which are essentially permanent and admit of no re-

transformation—that such investors should be allowed to receive sufficient profits to insure them against their prospective losses.

The elevated railway in the city of New York affords a very striking illustration of these principles. This railway is a favourite subject of denunciation as a monopoly by some of the writers for the newspaper press, because it pays perhaps nearly double the ordinary rate of interest on the capital actually devoted to its construction. These writers seem to ignore the difficulties that attended the inception of this enterprise. It was in the first place a complete failure, and those who had put their money in it were ridiculed for their folly. Certainly no prudent investor would have had anything to do with it if he had been told that he should receive in case of success only the ordinary rate of interest, while he must assume the whole risk of loss. Considering the novelty of the enterprise, the violent opposition that it was sure to encounter, and the legal difficulties that were to be expected, twice the ordinary rate of interest might very well have been regarded as an insufficient inducement to venture into it.

Although this rate of compensation was perhaps as much as was just, in view of the risk originally incurred in this enterprise, it may be

argued that it is altogether inadequate if we consider the perils of its future. Its profits have been already much reduced by the competition of surface cars propelled by cables, and if the city of New York should construct an additional system of rapid transit the elevated railway might not be able to earn its operating expenses. In view of this contingency, it seems impossible to deny the justice of the profits made by the road. Such profits must be regarded at present largely as a sinking or insurance fund. They may eventually prove to be no more than sufficient to replace the original investment after allowing the ordinary rate of interest. Should they prove to be more than enough for this, they may yet not exceed a fair compensation for the uneasiness and apprehension attending such an investment; for men demand compensation in the rate of profit for the dread of loss, even if it does not actually occur. Unless they are to be recompensed for their anxiety concerning precarious investments, they will certainly confine themselves to those which are free from risk—which is but another way of saying that no speculative ventures will be undertaken unless the public is willing to recognise the justice of exceptionally great returns. At least it would be true that if the public really refused to take that position,

speculative ventures would become on that account all the more speculative. They would need the prospect of very great profits to make them attractive, and would therefore tend all the more to fall into the hands of reckless and unscrupulous men. The example of the Brooklyn elevated roads, which have been nearly ruined by the competition arising from the use of electric motors by the surface lines, is extremely instructive upon these points.

But whatever doubts may be entertained concerning the monopoly supposed to be enjoyed by the elevated railway, there can be no question about the effect of this railway in increasing the monopoly enjoyed by landlords. The immediate effect of the building of this road was to make a very large tract of land in the city of New York available for residences. This land, owing to its inaccessibility, had previously possessed little value; but so soon as it was reached by the railway its price advanced at a prodigious rate, and has since been maintained at a very high figure. The owners of this land, therefore, found themselves at once very greatly enriched by the operation of a cause with which they had no connection. Without the least effort on their part they found their land suddenly worth twice or thrice, or even four times, what it had been worth before.

The public, however, hears very little concerning the injustice of this monopolistic gain, although it is from every point of view more remarkable than that of the elevated railway. The owners of the land affected certainly made much greater profits than the men who constructed the road, and they made them, too, without any risk to themselves. Nor do they suffer any apprehension concerning the loss of these profits in the future. Should the elevated railway be hereafter unable to continue its service, it will only be because some more convenient method of travel has taken its place. Whatever may happen, therefore, the owners of these lands are not likely to be unfavourably affected. They seem thus to occupy the fortunate position of enjoying the advantages of a lucrative and permanent monopoly, without any effort, or expense, or risk on their part, while the elevated railway secured its uncertain privileges at great cost and maintains them with great difficulty. In this case the corporation, which was really the means of conferring an enormous benefit on the public as well as the landlords, encounters the greatest odium for making profits that can not be called, on the whole, immoderate; while private persons, reaping where others sowed, enjoy their gains without reproach.

It may be added that some of these persons were only prevented by a strained decision of the Court of Appeals from getting damages from the elevated roads for the difference between the value of their property and the value which it would have had if the road had been operated in a purely beneficial way—i. e., without any detrimental influences. It is hard to resist the conclusion that the monopoly enjoyed by these landlords is quite as unjust as that of the railroads; in which case the employees of the railroads have certainly no better claim to higher wages than the employees of the private persons whom the railroads have incidentally enriched.

CHAPTER IX.

THE PARTNERSHIP THEORY.

MOVED with a desire to mitigate the loss and suffering occasioned by controversies between employers and workmen, philanthropists have laboured to develop systems of co-operation and profit sharing. The theory of these systems is that the employers and labourers engaged in a particular enterprise are jointly interested in making it productive. They are practically in partnership, and some better method of dividing the profits than the higgling of the market ought to prevail. There is so much friction in bargaining about wages, so much time lost in strikes, and so much waste and damage from mutual hatred and jealousy, where there should be peace and concord, that these projects for industrial partnership have been eagerly welcomed, and have in some instances attained a degree of success, although not the degree hoped for by their advocates. That they have attained no greater success appears to have been due to a misunderstanding of the partnership relation.

The essential features of a partnership are joint ownership of profits and individual liability for partnership obligations. These are the features recognised by the law, and they imply, as a rule, that the compensation of the partners is to be paid out of accruing profits. This also implies that capital is contributed to the firm by its members, or, at least, that capital is possessed by those who do not contribute any. It is not uncommon for partnership agreements to provide that one member shall put in not money, but skill and labour. But such a partner has to live during the period which must elapse before the profits of the enterprise are realized; he must live even if there are never any profits realized. The sum that he consumes for this purpose, whether he owns it or borrows it, is really invested in the partnership. If he were not engaged in the partnership he would have this sum to invest elsewhere.

Sometimes a partner is admitted under an agreement that he shall not only contribute no money, but shall also draw a regular sum from the start. But such a partner is generally in possession of special skill, or some kind of advantage which is worth paying for, and which is therefore practically capital. He is probably a successful manager, or can procure customers, or

has technical training or knowledge. Something of the kind he must have, or there would be no motive for promising him a part of the profits in addition to compensation for his labour. If this compensation is the full value of his service, why should he participate in the profit? If it is less than his service is worth, then he contributes to the partnership a capital measured by the difference.

Whenever two or more labourers combine to produce or distribute goods they necessarily employ some capital. They must own some tools and appliances, they must rent a place of business, or a workshop, and purchase some materials; and it makes no difference whether this is done with their own or with borrowed capital. Whether owned or borrowed, the capital must belong practically to the participants in the enterprise, and so long as this is true a real partnership exists among them. Some of the first English co-operative stores were partnerships; a few men made up a joint fund, contributed their own labour, and divided the profits. But most of these stores have long ceased to maintain this relation. They hire their employees for wages, just like other concerns, and do not share their profits with them. If the title "co-operative" implies division of profits between employ-

ers and employed, these English concerns have no right to the title. And there are very few concerns anywhere that have a right to it.

There are many reasons why this should be so, one of which, however, is quite sufficient to produce the effect. The day for the most effective employment of small capitals is past, and it can not return while the rate of profit is so low as it is at present. The possessors of small capitals must aggregate their funds; but in the case of labourers, their individual funds are so small that it takes a great many of them to make an effective aggregate. Now there can not be a partnership with a great many partners; it will not work. There are too many men to be consulted and too many chances for differences of opinion. Even when there are not more than three or four partners there has to be some specialization; one of them has sole charge of one branch of the business, and one of another. The greater the number of partners the greater the chance of death; and if one of the partners dies it often makes a great deal of trouble. It dissolves the partnership and brings in the lawyers, and it may end the business. Hence partnerships constantly give place to corporations; but the stockholders in a corporation are not partners. They can elect a committee to carry

on their business, but they can not carry it on themselves. They can not even control their committee, the trustees or directors, as they are called, except within narrow limits; they can only turn them out at the end of their term of office and replace them with others. Nor can they withdraw their capital, unless they can find some one to buy their stock; the capital belongs to the corporation, and continues to belong to it until it is dissolved. On the other hand, the stockholders' liability is limited. They may lose what they have invested in the corporation, but they can not be held for its debts.

It may be said that these distinctions are immaterial; that labourers may participate in profits whether they are called stockholders or partners. No doubt, where labourers are employed by a corporation, they are at liberty to buy shares of its stock, and the managers of most corporations would be very glad to have them do so. But they would participate in profits on the same basis as other investors of capital. Unless they owned a major part of the stock they could exercise no control of the management of the business; and it could seldom happen that they would own a controlling interest. Were they able to do so, they would generally have been graduated from the class of labourers into

that of capitalists. They would not know whether it would be most to their interest to lower wages or raise them; it would be like taking money out of one pocket and putting it into the other. Indeed, the most extreme confusion would be introduced into our classifications. There would be a majority of labourers who were also employers and capitalists, employing a minority who were neither, and who, of course, would not participate in the profits.

It is true that a number of labourers might form a joint-stock company and employ only themselves. Being both labourers and capitalists, they would get the whole product, whether it were called wages or profits. But the fact that little has been done in this direction indicates that it results in no economic gain. Labourers have generally found that they fared better if their wages were paid out of other people's capital than out of their own. They have seldom been able to secure the prudent and sagacious management that is essential to business success, and they have lost more than they have gained by most of their attempts at co-operation. It is probable that the difficulty of maintaining proper subordination will always be fatal. The men will feel that it is their own property that is dealt with, and they will be un-

der continual temptation to interfere with the management. The managers, being under constant supervision and criticism, will be timid. They will want to satisfy the men, and they will not feel disposed to insist on their own judgment when the men are opposed to it. They will not be able to reduce wages when they think them too high, or to limit production when they think the market is overstocked. They will be like the Athenian generals who had to fight battles under the supervision of a committee of the citizens: they will be more anxious about the movements of their friends than of their enemies; they will look backward instead of forward.

Some profit-sharing schemes have been perhaps less open to these objections, but they have encountered many difficulties. In these schemes the employers have agreed to pay the men a fixed rate of wages, and in addition a "bonus" out of whatever profits were made beyond a certain per cent on the capital stock. The theory has been that in this way the men would be led to take a more positive interest in increasing the profits of the business, and that, by reason of their greater industry and better spirit, these profits would be materially enhanced. To a certain extent this idea has been realized, but not to an extent sufficient to encourage us to believe that

its future is bright with promise. The additional production does not appear to be large enough to allow of a dividend of any great size, and it has not been found practicable to determine how far increased profits were due to better service on the part of the men, and how far to other causes. When the introduction of the plan has occurred at the beginning of a period of general prosperity, the men have been naturally inclined to refer increased profits to their own greater exertions, and to think that their bonus was insufficient, while the masters have laid stress on the potency of other causes. On the other hand, when profits have fallen off and there is no bonus, the men are apt to reason that they are rendering greater service and getting only ordinary wages. Such misunderstandings may be removed, but at an expenditure of time and patience incommensurate with the gain.

For we must bear it constantly in mind that prosperity comes by fits and starts. No concern can regularly pay out all the profits of each year in the shape of dividends or bonus. There will come lean years, and successions of lean years, and a surplus is extremely important as a protection against many disastrous possibilities. There come times when almost every concern needs to borrow and when every one is cau-

tious about lending. The company that has a surplus has money offered to it on its own terms. The company that has no surplus must pay high rates and furnish security; it may not be able to get money on any terms. But these considerations are not easily explained to a mass of imperfectly educated labourers. They are considerations which a great many of their employers do not sufficiently attend to, although the consequences of neglecting them may be ruinous. Even where the managers of a business are disposed to maintain a surplus they are liable to be thwarted by their stockholders, who are clamorous for dividends; and their employees would be even more difficult to pacify. In short, the bickerings over wages with which we are now plagued would be stayed only to give place to disputes about dividends. Unless workmen cease to regard their masters with suspicion and come to trust both their honesty and their ability, they will be, and they have been found to be, dissatisfied with their masters' management of profit-sharing enterprises, while incompetent to improve upon it.

It is evident that such schemes have little to recommend them unless it be assumed that they cause the labourers to become more efficient without increasing their sacrifices. We

must hold that if they increased their toil they would get higher wages under the ordinary system of compensation, and the system of profit sharing would only be a cumbrous mode of paying the increase. But it is quite doubtful if it is desirable that labourers should work harder than they do now. Philanthropists are inclined to favour shortening rather than lengthening the hours of labour. The strain of steady work under the stimulus of incessant machinery is now frequently more severe than is wholesome. Some workmen are inclined to shirk, and under a profit-sharing system their fellows would, it has been supposed, compel them to work more steadily; but the possible gain has been found to be hardly sufficient to induce men to undertake this invidious office. The fellow-feeling of workmen is too inveterate to give place so easily to the sentiments natural to employers; nor are the lazy prone to become industrious for any slight stimulus. There is, it is true, a possible saving from the mere improvement in the attitude of the men; they can make a considerable difference in the outgo, if they choose, without doing any more work. Whatever can be saved in this way is pure gain from every point of view; but, after all, good workmen generally mean to give a fair day's work for a fair day's wages, and in a well-

conducted business employers know how much ought to be accomplished for a given expenditure of labour and material. We should not unduly minimize the desirability of promoting the feelings of loyalty and fidelity among workmen; but the experiments with profit sharing as a motive, in spite of some notable successes, have been hitherto disappointing.

If there is no considerable margin of this kind for saving, it is doubtful if profit-sharing schemes will ever be successful. The difficulty of operating them would outweigh their benefits. In most cases there would properly be no surplus profits to divide. The exceptional gains of good years would be no more than enough to balance the exceptional losses of bad years. A concern that distributed all such gains as dividends, either to labourers or stockholders, would, as we have seen, in most cases become involved. On the other hand, a concern that accumulates its profits really insures steady wages to its labourers. When other concerns are obliged to close their works and discharge their workmen, this concern can go on piling up goods, for which there is no present market, rather than interrupt the continuity of its business. Its workmen thus receive somewhat more than ordinary wages. Their share of the profits of good years is held for them,

and paid to them in bad years, in the shape of wages which their labour would not elsewhere command. If there is any reduction of force at such times, it is the undeserving that go first. Really faithful and industrious men are only discharged in the last extremity, and their retention is a further means of giving them a share in past profits. Thus a wise accumulation by the managers of an enterprise practically increases the compensation of the labourers engaged in it by giving them work when labourers elsewhere are idle, and by rewarding the best among them for their former fidelity.

There is, however, a fundamental objection to the theory that the labourers in any particular enterprise are, or should be, in partnership with their employers. It is essential to the partnership idea that losses are to be shared as well as profits, and we are not at liberty to assume that it is for the best interests of the labourers that this idea should be realized. If we review the history of manufactures and trade in any community, we can not fail to be appalled at the number of failures which have occurred. It may well be doubted if the average duration of the prosperity of business enterprises is equal to the average duration of human life. The graveyards of these enterprises are not so conspicuous as

those of mankind, although the spectacle of abandoned mills and crumbling foundations is sadly common. Yet these graveyards exist in the reports of commercial agencies and in the records of the courts of insolvency, and their extent is a melancholy commentary on the limits of business sagacity. A shrewd and industrious man builds up a successful undertaking, and it is sometimes so fortunate as to outlast his day. There may be a succession of able managers in a business, just as there may be a succession of able kings in a government; but it does not often happen. Too often the sons of a capable business man are incapable; they succeed to the control when everything is running smoothly, and they have never learned how to cope with the difficulties which their father surmounted, and which they think, if they think at all about it, will never recur. But they will recur. The conditions of business change incessantly, and in these days of rapid invention and extended communication they often change violently. Unless manufacturers are on the watch for the latest improvements in machinery they suddenly find that more alert competitors are underselling them, and they may be ruined before they know it.

The fluctuations in the prices of raw ma-

terials are very great, and they are exceedingly difficult to prognosticate. They frequently depend on the machinations of a few powerful men; sometimes on the will of one very powerful man. There may be very substantial reasons for expecting prices to advance, and the manager of a business may think it necessary to buy largely for fear he may have to pay higher prices later on. But secret or unperceived causes may be in operation, and the price falls instead of rising, and thus the manager who thought he was prudent, and would have been praised for his sagacity by every one had the issue been different, finds that he has incurred a disastrous loss, and is denounced as a reckless speculator.

Sometimes there are several able partners, and they all make fortunes. Eventually they die, and their executors or trustees come into control of their estates. But it is seldom the case that they can continue the business of the decedents. They may not know anything about it, and if they try to retain the management they are very likely to wreck it. If they employ the right men the business may continue to succeed; but they frequently find out that they have not employed the right men, and then it is too late to extricate themselves.

There are reasons, which I need not dwell

upon, why corporations may endure longer than private enterprises. The old directors may be sagacious enough to recognise that there must be a constant infusion of new blood if the vitality of the concern is to be kept up, and may take care to fill up their board with young men of proved capacity. But if they neglect this there is great probability of trouble. The business gets into a rut, and those who are really most interested in it can not do anything to make things better. They can not take any active part in the management, because they do not understand it, and they have to employ managers who are interested only to the extent of their salaries. Gradually the profits diminish, and the surplus disappears. Then resort is had to borrowing, and so long as business is good there may be a little spurt under the influence of this stimulus. But when bad times come credit is restricted, and the charges for interest are not earned and can not be met. Then comes the discovery of the dry rot, and the stockholders wake up to the knowledge that their investment has disappeared.

The moral of this is plain enough. As we observed before, wise people do not put all their eggs in one basket. Unless they are personally familiar with the manner in which an enterprise

is managed, they are careful not to have in it more money than they can afford to lose. They scatter their investments, and when they observe signs of bad management and decay in any concern they withdraw from it betimes. But ordinary labourers are entirely incapable of the exercise of such discretion. They have no idea of the extent of their employers' obligations; they undoubtedly, as a class, exaggerate their employers' resources. In the case of corporations especially, many workmen apparently suppose that the wages paid are fixed by the arbitrary volition of the managers. They may gradually become aware of the fact that their employers are short of money, and the more astute among them may suspect the possibility of a collapse before it occurs; but by the time they become suspicious affairs are likely to be in such a state that no one who has any money in the business can get it out. He can not "unload" on any one, because every one knows what is likely to happen.

Hence we may lay it down almost as a cardinal rule that it is not prudent for a labourer to invest all his savings in the business of his employer. A portion of them may perhaps be so invested, provided the conditions are made such that it can be withdrawn, or that it can

be secured by some kind of preference in the payment of debts; but, as a general rule, experience indicates that labourers fare best either when they employ their earnings in some investment that is under their own control, such as land, or when they scatter them in a number of investments. This is practically what is done when they deposit them in the savings banks; for it is an elementary maxim in the management of these institutions that the amount of their funds invested in any single security or class of securities should be small. In nearly every case where these banks have failed in recent years it has been due to a disregard of this principle. The gratifying fact that these failures have been so few is in like manner explained by its observance.

It is of vital importance to keep in mind the fact that profits are the result of the previous expenditure of wages. Wages are paid out of wealth already existing; profits are to be made out of wealth created by spending pre-existing wealth. Were it otherwise, were labourers remunerated out of the things they are at any given time producing, they would not need to hire out. The ploughman necessarily consumes his daily bread; but it is made of the wheat that grew last year, not of that which is expected

to grow in the field that he is ploughing. There may never be any wheat there; frost, or flood, or blight, or accident, may annihilate it before the time of harvest. Nevertheless he is supplied with bread; it is advanced out of capital with the hope that it will be more than repaid in the future. The recompense of the labourer is assured; that of the employer is contingent. Since the labourer does not share losses, he is not in partnership with his employer, and the employer's profits must be sufficient to insure him against the risk of loss which he must bear alone.

While labourers and employers are not partners in the ordinary sense, they are in a larger sense. They are interested primarily in the particular enterprise that brings them together; but they are more interested in the general welfare. If the community at large is not prosperous, individual enterprises will be generally unprosperous. Hence the labourers and employers of the whole country are in a kind of universal partnership, in which all that they have is invested. In the interest of both classes this truth deserves to be emphasized. Our legislators are continually engaged with schemes intended to benefit this interest or that at the expense of the whole body of citizens. As a general thing the representa-

tives of one class are ready to combine with those of other classes, sacrificing something with the hope of gaining more. But this selfish policy often overreaches itself. Such burdens are assumed by those who secure favours that their success proves disappointing. The general burden laid on society hampers and impoverishes it, and every branch of business suffers, because some have endeavoured to thrive at the expense of the rest.

The French Revolution was the result of such a policy as this, carried to an extreme and long persisted in. Every one tried to secure some special favour or immunity, and eventually the whole framework of society collapsed under the weight of its own materials. All genuine progress in government has been attained by reversing this policy. Reformers have insisted that if special favours granted by Government were withdrawn there would be such a stimulus to the general prosperity that the special interests would gain more than they lost; and so it has proved. The classical instance of this is, of course, the repeal of the corn laws in England, which the landlords declared and believed would be their ruin, but which actually increased their wealth to an extent which astonished not only them but everybody else.

In a country governed by universal suffrage it is peculiarly important that the community of interests of all classes should be recognised. Since the class of labourers is the largest of all, it would be in their power, if they could learn to act in combination, to adopt measures intended to benefit them as a class at the expense of other classes. Demagogues are constantly advertising measures purporting to be of this character, and the timidity of legislators permits many of them to become laws. But we are quite warranted by experience in asserting that if labourers were to unite in support of such a policy they would do themselves, as well as the country, great injury. They would not be very likely to succeed in devising a practicable scheme in harmony with this policy; but the policy itself is essentially pernicious. No great reform has ever been accomplished by granting favours to a class, because the motive for asking such favours is essentially evil and selfish. On the contrary, all great reforms have consisted in the revocation of privileges enjoyed by particular classes, and they have owed their success to the generous and unselfish feelings to which they appealed. It is to face in the wrong direction for labourers to demand the creation of privileges rather than their abolition; to insist on class leg-

isolation instead of legislation for the general welfare.

Paradoxical as it may sound, we may lay down the principle that it is easier for the common people to judge what is for the welfare of the community in general than what is required for the prosperity of the particular industries in which they are engaged. They are quite competent to decide whether it is more advantageous to have the friendship of a kindred people, with whom our relations of every sort are of the most intimate kind, and with whom we have a trade of a thousand millions a year, or to have that of an alien people, whom most of us know nothing about, with whom we have scarcely any connection, and whose commerce is insignificant. They are equally competent to decide whether, in view of the manner in which public money is spent, it is wiser to increase expenditure and taxation or to reduce them. Nor are they less competent to decide whether the general welfare will be promoted by legislation that frightens those who possess capital and leads them to withdraw it from business, or that encourages them to believe that if they lend their money they will get it back again.

These are the matters that require decision by Government, and they are really very simple

matters. They are largely moral questions, and require only the exercise of ordinary courtesy, sincerity, and honesty for their solution. And on their proper solution the prosperity of labouring men depends far more than on any schemes of profit sharing or compulsory increase of wages. Such a solution would in a short period result in the creation of new wealth sufficient not only to increase the wages fund more than it could possibly be increased by any legislative device, but also to maintain or even enlarge the present rate of profit.

We may sum up the matter by saying that labourers will best promote their own interest by struggling to promote the general interest. The influences that promote the general welfare are of a large, simple, and universal character; they are capable of comprehension by ordinary people. Those that affect the prosperity of a particular enterprise or interest are frequently special, complicated, and technical. They require not only peculiar training, but also peculiar talent for their comprehension. Those who comprehend them seem to do so by a kind of business intuition; they are often unable to give correct reasons for their correct judgment, and they could not act with the necessary promptness and decision if they had to explain their motives to their la-

bourers or their representatives. Even as it is, labourers run the risk of losing by the failure of their employers. They may be thrown out of work; they may have to seek new employments. To this extent they are now in partnership with their employers, and it is a sufficient extent. They receive their wages so long as the business continues, perhaps long after the business has ceased to be profitable. Their savings are, on the whole, better placed where they are more secure than they can be in any single investment, and where there is little danger of their being wholly lost, even if the rate of interest seems discouragingly small.

CHAPTER X.

WHAT LIMITS THE RATE OF WAGES.

IN the previous chapters we have examined the charge that the employees of corporations are treated with less justice than those of individuals. This examination has been protracted to what may seem a tedious length, but its results will shorten and simplify the remainder of the inquiry. That will evidently involve both the justice of the wages system itself and that of the great fortunes which appear to be its outgrowth. All that we have hitherto formally accomplished has been merely to prove that, under this system, workmen are no more industrial slaves when employed by corporations than when employed by individuals. Conceding this, the real grievance, as originally stated, remains the same. The quantity of destitution is not lessened, suffering is not decreased, nor opportunities of development enlarged by any demonstration that one class of employers is no worse than another. The "bitter cry" of the poor can not

be stilled by abstract arguments and considerations of this character. It may be quite true that corporations deal as justly as individuals with their men, but those whose feeling of responsibility for the poor has been aroused will not be contented by the establishment of this truth. They may be convinced that they were in error in regarding the existence of corporations as the cause of the evils of which they complain, but the correction of the error does not correct the evils. If corporations are not the cause of injustice, some other cause must be sought, for the discovery of a defect in our diagnosis can not be treated as curing the disease.

Is it then possible, by any conceivable reform of the present industrial system, or by the introduction of a different system, to increase the compensation received by labourers for their toil? To answer this question we must in the first place examine the causes that determine the present rate of compensation. Some writers on political economy have laid it down that, at any given time, there is a certain amount of wealth devoted to the payment of wages, and that, as there must be a definite number of labourers in existence at that time, the rate of wages, possible or actual, can be ascertained by a simple process of arithmetical division. From this it

has been inferred that the only way to increase wages must be either to increase the wages fund or to decrease the number of labourers; to enlarge the dividend or lessen the divisor. This view has been criticised as assuming a fixity in the wages fund that does not correspond with fact. It is no doubt true that at any given moment the average rate of wages would be ascertained by dividing the sum actually paid by the number actually receiving it, but this arithmetical proposition does not explain the causes which produce the wages fund and determine its size, or the causes that influence the growth of the labouring class.

The ultimate source of the wages fund is to be found in the fact that under certain conditions the labour of mankind produces more wealth than is necessary for their support. That portion which can be spared may be spent in the immediate gratification of luxurious desires, or it may be wholly or partly applied to the production of increased wealth, in which case it receives the name of capital, and such of it as is paid directly to labourers is called wages. The motive which induces men to refrain from the immediate enjoyment of wealth and to risk it in the various enterprises of human industry is the desire of gain or profit. Unless there were a rea-

sonable expectation of obtaining an increase of his grain, the farmer would have no motive for ploughing and harrowing the land and consigning the seed to it. It is quite unnecessary to describe this motive as a selfish one. The use made of profits may be selfish, but men desire to make them quite as much for the sake of others as for their own sake. We may therefore properly regard the desire to obtain a profit from the use of capital as nothing intrinsically reprehensible. It is on many accounts praiseworthy, and is certainly not only advantageous, but indispensable to human society. Were it otherwise, the desire could not be realized; for, in general, it is only when wealth is employed for the benefit of others that its owner is enabled to secure a gain for himself.

For the sake of simplifying the argument, we must assume that we are dealing with a constant number of labourers, or that it increases only in its usual ratio. We may also fairly assume that the conditions of production remain the same, or vary only at the prevailing rate. Under these circumstances, that increased compensation for their toil demanded for labourers by justice must come out of that part of the wealth of the community heretofore set apart by its owners for other purposes. And it must

come not from the fixed wealth of the community, but from its income or revenue.

Wealth in the shape of machinery and buildings, and railroads, and improvements of land, can not be converted into other forms. Property in these permanent investments may be sold; but transfers of title do not affect the nature of its subject. Such wealth is valuable only for its uses, and these are measured by the income or revenue derivable from it. This revenue is for the most part in such a form, or convertible into such a form, as to be applicable to the payment of wages; and out of it, in the long run, wages, and any increase of wages, must come, however the fact may be disguised by the use of money.

What is known as circulating capital is, it is true, frequently in a shape to be applicable to the support of labourers; but circulating capital itself comes into existence in the shape of revenue. And since we have used the term profits as signifying the return from the employment of capital, it will simplify our reasoning if we adhere for the present to this meaning, and understand by profits whatever revenue is received by any one from other sources than the sale of his labour. We shall be obliged, after a while, to distinguish between interest and profits in the

technical sense, but as we are concerned here with the fundamental distinction between the reward of capital and that of labour, we may properly speak of the whole revenue of the community as divisible into wages and profits. At any given time, therefore, an increase of the one involves a decrease of the other.

It does not follow from this that such a diminution of that part of the general revenue as would be applied to other purposes than the payment of wages may not eventually result in an increase of the gross revenue. On the contrary, such a diminution constantly tends to take place under the expectation of just such an increase. Nearly every one, under the temptation of very great profits, will economize in his expenditure for luxuries and apply his savings to these attractive investments. But the real motive, generally speaking, for his disposition to increase his future revenue is the expectation of increasing that part of it which is applicable to the promotion of his own comfort, or the comfort of other persons in whose welfare he is interested. If he understood that no increase of his profits could be controlled by him, but must all be devoted to increasing the wages of labourers, the situation would be very different from what it now is. We need not be so hasty as to

assert that under such circumstances no one would be disposed to deny himself in the manner supposed. This may or may not be true, but it is clear that the present motives for such self-denial would be extinguished.

The suggestion may be made that increased wages will cause increased production through the increased efficiency of labourers. The result would therefore be a larger fund to be divided, and the apparent sacrifice made by employers might be after all only an investment of a profitable nature. This, however, would be true only if the sacrifice did not have to be repeated, for if the process were perpetual the employers could never recover their original loss. Their gross profits would be continually enhanced, but the share of them available for their own consumption would steadily diminish. Were it otherwise we should have a mere repetition of the present state of affairs. It is notorious that the wages of labourers have steadily and very greatly risen during this century; and they have risen in precisely this way. When we speak of wages as determined by competition, we mean, if we look into the matter, that employers are constantly bidding against each other for the services of workmen. When we say that wages are rising, we mean that some employers, tempted by

the anticipation of future profits, have determined to apply a larger proportion of their present profits to the payment of labourers, and a smaller proportion to their own consumption.

Bearing in mind our postulates concerning the number of labourers, we see that such employers can increase their force only by drawing away some labourers from other employers. This they can do only by offering them higher wages than they are receiving, and their present employers, if they would retain them, must meet the advance. As a matter of fact, some of them are not able to do so, or do not think it worth while, and thus labourers are constantly drawn into those branches of industry which are at any given time most profitable. The whole movement is thus determined by the expectation of greater profits, which during the present century, owing to a number of causes, have been largely realized.

It is, of course, natural for employers to wish to keep their expense for wages at as low a figure as possible. It is equally natural for them to desire to keep their expenditure for materials and machinery at the lowest possible figure. But as they buy these goods with the greatest attention to their quality and service-

ability, as well as their price, so they pay much regard to the efficiency of their labourers. Their aim is to make a profit, and they are, as a rule, aware that this is not to be made with bad materials or bad work. It is certainly reasonable to presume that they are quite as well aware of the advantages of employing a high quality of labour as those professedly unselfish philanthropists who, although frequently unacquainted with the conduct of business, undertake to instruct business men in this particular. The aims of these philanthropists may be highly laudable, but it can not be denied, however paradoxical the assertion may sound, that increased wages are the result of the voluntary acts of employers. They are frequently said to be compelled to pay higher wages, but there is a suppressed alternative. They need not pay them at all unless they choose; but while they may be indifferent to the welfare of their workmen as an end in itself, they are not blind to its relation to their own profit. Some of them would perhaps be glad if they could increase their profits by diminishing their payments for wages; but the history of this century shows conclusively that employers as a class, or capitalists, if the term be preferred, have, consciously or unconsciously, acted on the principle that increased profits

could not be obtained without paying increased wages.

It is further to be observed that the increased profits of which we have just spoken are gross profits, and have been apparently realized, on the whole, not only not through an increase in the rate of profit, but in spite of a decrease in that rate. As Adam Smith remarks, it is practically impossible to ascertain what is the average profit of all the different trades carried on in a country; but some notion of it may be formed from the interest of money. "It may be laid down as a maxim, that wherever a great deal can be made by the use of money a great deal will commonly be given for the use of it; and that wherever little can be made by it, less will commonly be given for it."

Measured by this test, it would seem that the rate of profit is now scarce one half what it was fifty years ago. At all events it has considerably fallen, while the rate of wages has considerably risen. A great many persons, therefore, must have continually decided that, although they could not obtain the same rate of profit as before, they would nevertheless increase their savings. In other words, they have lessened the proportion of their total revenue which they devote to their own consumption, and en-

larged the proportion which they devote to the payment of wages.

Such being the case, it might seem that our inquiry could be speedily terminated. Experience, it might be urged, has shown that what justice requires is practicable. Since employers have in the past increased wages by reducing the proportions of their own luxurious expenditures, they can do so in the future, and according to all the requirements of justice it is just that they should. If the demand had been made upon them at any former period they would have declared it impossible to comply with it; but the sequel has proved that they were wrong. There are many evidences that a vast amount of wealth is everywhere expended in luxurious consumption, some of which might certainly be curtailed without detriment to the welfare of any one; and while this is so, the justice of the claim of labour to increased compensation can not be denied on the ground of impossibility.

It may be conceded at once that, so long as any luxury at all is enjoyed by employers, there is a fund in existence out of which increased wages could be paid. But the difficulty lies somewhat deeper than this. Hitherto, as we have seen, there has been a gradual increase of wages, caused by employers' desire to increase

their gross profits. This increase has been attended with a decrease in the rate of profit, but this rate has still been sufficient to encourage accumulation. It does not follow that accumulation will continue, no matter what the rate of profit. What the possible minimum may be we can not tell, although the experience of the past informs us of no lower rate of interest than the present; but we can assert positively that there must be a minimum, and that we have approached it very rapidly. If the present order is undisturbed, we may still see an increasing rate of wages and a declining rate of profit, which will eventuate in an equilibrium; the rate of profit becoming so low that people will prefer to spend some income which they would have saved had the rate of profit been higher. Beyond that point no increase of wages can take place unless the number of labourers diminishes; and if it should increase, wages would fall.

Hence what is really demanded in the name of justice is an artificial acceleration of this process, a compulsory attainment of this equilibrium. In short, the rate of profit ought to be at once reduced by law to whatever figure it would eventually attain through the voluntary action of the owners of capital. So long as freedom of contract exists no lower figure can be

reached, and any attempt to do so would be mere confiscation. Such attempts would result in the communism which is the ideal of Karl Marx and his followers. They regard all profits as unjust, and hold that the whole product of capital and labour belongs to the labourer. But it is not worth while to criticise this theory. Its impracticability has been so often exposed that we need only say that the destruction of the motive for saving would inevitably lessen the fund available for production, out of which wages must come.

CHAPTER XI.

THE NATURE OF PROFITS, AND SOME CONSEQUENCES OF REDUCING THEM.

WHEN we speak of capital and profits we generally think of them as belonging exclusively to employers. But we have now reached a point where we must recognise the blurring of the lines that in theory divide economic classes. We can not ignore the fact that labourers, as a class, have accumulated enormous amounts of capital, and have to that extent made it to their advantage that the rate of interest should be maintained. They are lenders to their masters, and, like other creditors, they are benefited by the prosperity of their debtors. To some extent they may hoard their savings, but in the main they flow quickly into the reservoirs of capital. Even in agricultural States, where there are few savings banks, thrifty labourers manage to invest what they save from their wages, either buying land and stock, or lending to their employers and others needing capital. But the savings banks

are the most important as well as conspicuous means of investment for funds of this description.

In the year 1893 the deposits in the savings banks of the United States amounted to about \$1,800,000,000, and the depositors numbered 4,830,000, the average deposit being about \$370. During the decade preceding, the aggregate deposits had nearly doubled. These institutions, as we have seen, are confined to populous communities. Nearly five sixths of the total deposits are found in the banks of the Eastern and Middle States, and about that proportion of the depositors belong there. The deposits in Massachusetts are somewhat over \$400,000,000, credited to about 1,200,000 accounts; in New York they are not far from \$700,000,000, the depositors numbering over 1,600,000. In Massachusetts, it would appear, every other person may have an account at the savings bank; in New York, every fourth person. Taking the Eastern and Middle States together, it would be approximately correct to say that every unmarried adult and every head of a family may keep a savings account, the average amount of which would nearly equal a year's earnings.

Allowance must be made for the notorious fact that many comparatively well-to-do persons

make use of the savings banks, and that they often keep several accounts. Many institutions and associations also find the savings banks convenient for certain purposes, so that the number of depositors belonging to the labouring class must be considerably less than the total number. On the other hand, there are numberless other ways in which this class invests its savings. Its members frequently take out life and accident insurance policies, join building associations, and belong to various unions, orders, or societies, which, as we know by the returns collected in Great Britain as well as this country, have collectively very large funds. Many thrifty labourers lend their savings on personal security, or even on bond and mortgage; and where there are no banks, as we have observed, such methods are necessary. On the whole, if we take into consideration the large number of labourers who are drunken and improvident, it would perhaps not be unreasonable to suppose that a thrifty labourer and his family in one of the manufacturing States may on an average possess a thousand dollars, which is properly classified as capital, in addition frequently to other personal and even real property. Any reduction in the rate of interest, therefore, would occasion such persons an appreciable loss.

This loss, it is evident, would be very unevenly distributed. Workmen, while in their prime and in receipt of good wages, endeavour to accumulate an insurance fund, and as they gradually increase it by additions from their savings, the rate of interest it bears does not seem of very great importance; but when they suffer from sickness, or become old, or from any cause find their wages cut off, the interest derived from their savings becomes of more consequence. This interest can seldom be sufficient for their support, but it may often be sufficient to postpone the exhaustion of the principal until the purpose for which it was accumulated is accomplished. A reduction of interest to any considerable extent might operate, as has been pointed out, to diminish saving or to increase hoarding, and any compulsory measures intended to bring it about would certainly seem unjust to those who had by long self-denial accumulated a fund for support in their declining years. The retired or incapacitated labourer, under such circumstances, becomes really a small capitalist; he ceases to be interested in the increase of wages at the expense of interest. The number of such persons, especially of the female sex, is very large, and their protest against the overthrow of their calculations would be far from unreasonable.

The only class of labourers whose gain from the proposed change would have no offsets would be those who spend all their wages as fast as they get them. But we can not ignore the fact that this class of labourers contains many criminal and vicious members. While they are perhaps not to be blamed for a moderate indulgence in alcoholic drinks, their indulgence is often immoderate. The consumption of such drinks is, of course, not confined to this class of labourers, but it is notorious that excessive indulgence therein regularly accompanies lack of thrift. Drunkenness and frugality are incompatible; and hardly any complaint is more common among the poor than that men who get good wages will spend them in drink instead of providing for their families.

It would be absurd to maintain that wages ought to be kept low in order to discourage drunkenness; but it can not be denied that a rise of wages promotes it. The excise returns are sufficient evidence of this, so that it is said in England that the people drink the Government out of debt. We may rejoice in advancing wages, but it is necessary to remember that they have this drawback. The evil is insignificant in comparison with the good; but we can not disregard the fact that in our code of morals prudence

has always occupied a high rank. The thrifty labourer is praised and the improvident one condemned. Philanthropists have busied themselves in encouraging labourers to save, and in devising institutions whereby their savings might be most profitably invested. The whole tendency of the advice given to the poor has been to impress on them the importance and merit of getting rich. The labourer is told that it is his duty to lay up against a rainy day; to provide against sickness and old age and death. He is appealed to to save his earnings in order that he may give his children a better start in life than he has had; that he may be able to benefit others as well as himself. It is incredible that all of this teaching should be wrong, and that lavishness and improvidence are the true ideals for workingmen to adopt. We must maintain that the traditional morality is sound, and that if workmen get higher wages, they ought to save some of the increase.

It is occasionally urged that wages are earned in order to be spent. You can not eat your cake and have it too; and as cake is meant to be eaten, it is wiser to eat it than keep it. But man looks before and after. Whether labourer or capitalist, he desires to provide something for the future support of himself and his family, and

the sense of increased security is itself a pleasurable gratification. The labourer, it is true, indulges in some additional comforts as his savings grow, and the capitalist who finds his profits increasing from year to year enlarges his scale of living; but the evidence is abundant that the propensity to save is very strong with both of them, and that it is of the greatest value to the individual and to society. At the same time we must recognise the fact that these economies tend to defeat their own object. The more savings are swelled, the lower goes the rate of interest, and as the labourer becomes more of a capitalist he is rewarded less.

I have dwelt at much length on the economic position of the working classes, because progress seems to depend on their becoming transformed into capitalists. No one will deny that the acquisition of property by labourers is on every account desirable. But these acquisitions must, from the nature of the case, assume principally the form of loanable capital. They are concentrated in banks and distributed by them among the various channels of production. Any serious disturbance of the accustomed flow in these channels not only reduces the income of labourers' savings, but imperils the principal. Measures that profess to increase wages, but that ren-

der their investment unprofitable or unsafe, are not likely to be of any permanent benefit to the poor.

While a large part of the present fund of loanable capital consists of savings out of wages, the greater part consists of savings out of profits. The position of those who own these savings may be quite different from that of employers as a class. The latter are borrowers; the former are lenders. The employer who uses his own capital may not be directly concerned in the rate of interest. The employer who borrows is directly concerned, and apparently concerned that it should be low. Apparently, too, those whose operations are most successful and on the largest scale are most benefited by lowering the rate of interest. Their abilities enable them to make higher profits than most employers, and if they can increase their capital at small expense they may be able to extend their business greatly and make even higher profits. An artificial reduction of the rate of interest might thus affect the different classes that are commonly included under the generic name of capitalists very differently. Those people who depended mainly on interest for their support would suffer, while those whose income arose from profits might be the gainers. In fact, as will appear later, the attempt of the

Legislature to increase the reward of labour at the expense of capital may not only fail to benefit labourers, but may enable those capitalists whose gains are on the largest scale to increase them at the expense of those whose gains are the smallest.

The number of persons supported wholly or partly by interest as distinguished from profits is now very great. As we have seen, many labourers get a part of their income in this way, and as we go up the scale we find that an increasing proportion of income is derived from this source. People who own their houses are practically in receipt of interest on their cost, and such people are numberless. The natural consequence of our increased wealth has been a more extensive provision for the future by those who have acquired it. Fathers are anxious to insure their children against the cares and sufferings of poverty; they wish to enable them to live in comfort and to be able to enjoy some of the refinements of life. A few of them are foolish enough to desire that their sons shall not engage in any useful pursuit; more are fond enough to prefer that their daughters shall not earn their own living. Probably the prevailing feeling is that, in view of the uncertainty of health, the vicissitudes of employment, and the possibilities

of unfortunate marriage, children should be educated so that they may be useful, and at the same time made independent of the necessity of being useful. The result is that our middle class, or at least the upper part of it, contains a large number of persons of this description, and they constitute an extremely valuable element in our society. The professions are to a great extent recruited from this class; its existence makes the cultivation of the refined arts possible, and it furnishes much of the large force of volunteers required in our charitable and religious enterprises.

The tendency of a fall in the rate of interest, from whatever cause, is to check the increase of this class. The sum of money that formerly provided for their support can not now furnish that support. Some of those who had leisure for liberal and benevolent pursuits must give them up and devote themselves to earning a living. Marriages will be delayed, and will be, as in France, more and more unproductive. The descendants of the early settlers of New England are already a dying stock, and their places are taken by immigrants of recent date, of more reproductive capacity, but of inferior culture. So strong is the desire to rise in the social scale and to maintain the ground that has been won,

that more and more persons prefer not to marry, but to purchase annuities or to consume their principal, leaving at their death neither posterity nor the wealth by which it might have been supported.

It is true that there are many people who make a bad use of property that comes to them by gift or inheritance. This is apt to be the case with suddenly acquired wealth. When fathers are absorbed in making money they can not attend to the training of their sons, and the sons, being petted and indulged, grow up unfitted either to earn money or to take care of it. But when a family has been wealthy for generations this tendency is less marked. Men have leisure for other pursuits besides that of getting rich, and they can bring up their children in those habits which are indispensable when the permanent possession of wealth is at stake. In this way an enduring class of well-to-do people, who are also educated, cultivated, and benevolent, is created. It can not exist without a substantial basis of property, and it must be diminished by any sudden reduction of the return from investments. It does not follow that this loss may not be made up for by gains in other directions; but it must not be forgotten, when we reckon these gains, that there are losses also to be estimated.

In this connection we may refer to the effect of reduced income upon the great numbers of religious, charitable, and educational institutions supported wholly or partly by invested funds. The immediate effect must be, of course, to curtail their operations. They must discharge some of their employees; they must get along with fewer surgeons and professors, and pay less to those who are retained. They must suffer immediately and directly in this way, and they will also suffer remotely and indirectly in another way. The class by whose liberality they are principally enlarged and supported will no longer be able to keep up their contributions on the former scale. Their income being smaller, they must economize somehow, and they will be compelled to restrict their benevolence. Many of them will deny themselves luxuries to which they have been accustomed; some of them will even deny themselves comforts rather than relinquish the charities to which they are devoted. But, on the whole, the abilities of this class being reduced, as well as its numbers, there can not but be a falling off in the amount of donations to benevolent purposes.*

* The gifts and bequests for public purposes made in amounts of \$5,000 and over during the year 1896 foot up, according to "Appleton's Annual Cyclopædia," more than \$27,000,000. In some

These considerations may be sufficient to show that the Legislature can not reduce the rate of interest without some injury to labourers as well as other classes. It remains to inquire into the rate of profit as distinguished from interest. Large business operations are generally conducted to no small extent with borrowed capital, and it might at first seem that a reduced rate of interest would tend on this account to increase profits. But it is not the market rate of interest that would be reduced by governmental action. That might remain the same, while the recipients of interest were amerced by legislators. Employers, therefore, would have to pay as much as before for the use of capital, and if the accumulation of capital was checked they might after a while have to pay more. A tax on interest, therefore, might presently become a tax also on profits.

The immediate effect of a reduction of profits must be most severely felt by small employers, whose profits amount to little more than the wages of their labour. Such employers could no longer make a living by employing labourers; they would have to seek employment instead of offer-

previous years this sum has been greatly exceeded, and the figures represent only a part of what is actually contributed by the benevolent.

ing it. In the case of retail trade, the large establishments would profit at the expense of the small ones. This truth is distinctly recognised by our liquor laws. The traffic is heavily taxed with the purpose and with the result of making it unprofitable for small dealers and driving them out of business. The same causes operate in other trades. The great shopkeepers have many advantages both in buying and selling, and are able to practise many economies which are not within the power of their little rivals. While their rate of profit might be reduced, the extent of their transactions would be enlarged, because of the increased number of their customers.

The result of the change would therefore be to discourage men of small means from engaging in business on their own account. Thus the increase of wages at the expense of profits tends in this instance, as we should expect, to increase the number of labourers and to decrease correspondingly the number of small capitalists. We do not often hear it said that justice requires the suppression of this class of capitalists, but it is evident that we must accept this conclusion if we maintain that justice requires that wages be increased. Some one must pay the increase, and the small capitalist can not escape paying his share of it.

These conclusions apply not only to small shopkeepers, such as grocers and butchers, and the host of little merchants who buy goods and sell them in a form substantially unchanged; they apply equally to artisans, such as blacksmiths, and shoemakers, and bakers, and tailors, and upholsterers, and numberless others, who expend their labour and that of their assistants in changing the form of the goods in which they deal. They are now constantly exposed to the competition of larger capitalists, who are able to introduce new processes and better machines as fast as they appear. The advantages of production on a large scale are in these trades often strikingly manifested. We find that it is more economical in many instances to discard our half-worn coats or shoes and buy new ones instead of having the old ones repaired by the tailor or the cobbler. The numbers of these independent artisans have been relatively reduced by the introduction of machinery. They will be still further reduced if wages are to be raised by decreasing profits.

Many small farmers belong in the same category. They are generally obliged to employ one or two assistants, at least during a part of the year. It has become a saying among them, in these times of falling prices, that they would

like to exchange places with their hired help. The hired farm hand gets his board and his wages; the farmer gets only his board. His profits have in many cases entirely disappeared, and he keeps on farming only because he can not well stop. But he would have to stop if he had to pay the same amount for wages and got less profit from his farm. He could not raise the money to pay these wages. As it is, he can hardly raise the money to buy the improved machines that play a large part in modern agriculture, and without using which he must quickly go to the wall. If his income is decreased, but not his expense, he must give place to the farmer who has the capital to enlarge his operations. If he can not afford to hire labour, he must hire out himself. This process is continually going on, and has by many observers been deplored; but, according to the theory under consideration, justice requires that it be accelerated.

The statement of these results may seem to amount to little more than saying that what has taken place in the past will tend to be repeated in the future. In our own country the existence of vast tracts of very fertile land, so situated as to be made easily accessible by railways, has modified and even arrested many economic tendencies. Now that these lands have

mostly passed into private ownership these tendencies will reassert themselves. A declining rate of profit will render it more and more necessary to concentrate capital, and the small capitalist will find it harder and harder to maintain an independent position. While there may be no actual decrease in the numbers of this class, there will be a relative decrease as compared with the number of labourers. It is idle to lament this, and yet there are many reasons why we should not expedite a change which is attended with many political consequences of an unsatisfactory and even alarming character. At least we may hesitate to adopt measures intended to carry this change at once to the extreme limits of its possibility, limits which might under present conditions never be reached.

While it is evident that the general rate of profit may be reduced by Government, and that the number of independent employers will thus be diminished, it does not follow that all those employers who continue in business will find their gains decreased. There is in theory a general rate of profit, but in practice there is an infinite number of particular rates. Some of them are very high and some very low, and it can not be determined how they will be individually affected. As we have seen, profits arise from the fact that the

abilities of mankind obtain from Nature a larger supply of desirable things than is needed for mere support. Exceptionally high profits, therefore, are generally due to exceptional abilities. In such cases the cost to the community of what it receives is not increased. Indeed, the public eventually, if not at once, makes a positive gain—a gain that comes to it without expense.

This truth is of so much importance as to deserve to be illustrated at some length. It is, of course, admitted, but it is not fully appreciated. No one denies that he is a public benefactor who makes two blades of grass grow where one grew before; but there is a disposition to ignore what the proverb implies. Let us extend it a little, and observe the different results obtained by the good farmer and the bad farmer. They may have farms of equal value and equal capital, but one manages to produce twice as much as the other. The surplus is entirely due to skill, intelligence, and industry; to qualities which it is of the greatest importance to society to encourage. As the direct result of these qualities more and better food comes into existence without any increased exertion on the part of the community. It is all clear gain.

It is not different in the case of manufacturing establishments. The man who by improve-

ments in machinery, by employing new processes, by attention to the details of business, turns out an increased product, is as much of a benefactor as the good farmer. The same is true of distributing agencies. The merchant who lays before his customers a stock of well-selected goods renders them a greater service than the one who offers ill-selected goods. He who provides such an assortment as enables customers to supply their wants with the least expenditure of time and trouble is a benefactor to them. Those who effect improvements in transportation, in communication, in exchange, in insurance, in banking, are all engaged in adding to the general sum of wealth. If they kept the whole of their additions for themselves the community would be no poorer; but they can not keep the whole of them for themselves. The farmer who increases his crops must sell them, and when there is more to be sold the price falls. Ability thus divides its rewards with the world. Its gains are due to itself, but it can not utilize them unless it shares them with mankind.

Who can calculate the purely material gain to our race from the wonderful reduction in its death rate that has taken place in modern times. Disease was formerly so much more destructive

that we may compare its effects with that of war. Every year as many people were swept away by pestilential diseases as would have fallen in a bloody campaign; and these lives are now saved. Their preservation is due in a general sense to the advance of science; but it is to be especially attributed to the increased abilities of physicians. Although we do not speak of their compensation as profits, yet it is clearly of the same nature. They save lives that but for their skill would be lost; the abler of them save lives that ordinary physicians can not save. It has happened to many to be bereaved of children or friends because of the absence of professional skill. What figure will they name as the additional recompense which they would have paid for professional skill that would have saved these lost lives?

What would be the value to the German nation, it has been asked, of another Moltke when the next war breaks out? Might he not be cheap at a hundred million dollars? Might he not be worth a national debt? Such instances as these illustrate the necessary connection between great accumulations of wealth and great profits. When a man is struggling to defend a fortune against a dangerous claimant he wants a lawyer that can win. The services of a hundred incompetent attorneys would be worse than worthless.

When it is a question between total ruin and a large fee, it is folly to hesitate. The principle is the same in the case of great business enterprises. An able man may make the enterprise a splendid success; an incapable man may not only make no profits, but lose the principal. Where losses may be on a large scale, it pays to insure against them by employing the highest talent that can be procured, and the resulting competition among owners of capital to secure this talent raises its compensation to high figures.

The truth is only disguised when men conduct their affairs with their own capital. If they have exceptional capacity, they earn its compensation in the shape of exceptional profits, whether the capital belongs to them or to others. And as the services of an able general are worth more in time of war than in peace, so the services of an able business manager may be more valuable when profits are reduced than when they are increasing. A reduction in the general rate of profit, therefore, may sometimes result in increasing those particular rates that were highest.

During recent years a strong tendency to combine has prevailed among establishments manufacturing staple articles of consumption, and the ears of the public have been deafened

with outcries against these combinations, which are ignorantly called trusts. The ground of these complaints has, of course, been the supposed monopolies created. Those who effected these combinations undoubtedly expected thereby to increase their profits—a result which has been attained in different degrees, and in some cases not at all. Where the expected profits have been realized there is remarkably little evidence that the public has been subjected to any additional expense. Few people are aware of the very great charges incurred by manufacturers in disposing of their products. These charges are frequently greater than the cost of production. The expense of advertising is enormous; it is estimated at a hundred millions a year. So far as staple articles of established use and quality are concerned, money spent in advertising is wasted. No housekeeper now needs to consult manufacturers' advertisements before supplying herself with granulated sugar; no grocer is under any such necessity. But if there were many sugar companies, they would spend immense sums in advertising their respective products, and whether this expense fell on the producer or the consumer, it would increase the cost of production. It is in evidence that one of the concerns that united to form the American Tobacco Company

had spent \$700,000 for advertising in a single year. After consolidation this expense was saved; and if all the concerns made similar savings, the total would have been sufficient to pay all the dividends of the new company.

As the reduction of advertising to sober business announcement is a clear gain, so the saving attained by dispensing with a horde of soliciting agents is altogether beneficial. Special lines of goods and novelties may need to be brought to the attention of consumers, and in such cases there may be no opportunity for combination. But it seems absurd that the community should be called on to support a large number of men engaged in calling attention to the different establishments making a staple article of consumption. In the case of sugar, as we just now observed, every consumer and every grocer knows exactly what the article costs and what it can be sold for. If there were many competing establishments, every one would have to be on the watch lest he pay more than others. As the saving in expense to the producer is very great, so the saving in friction and anxiety to the buyer is enormous. To effect this saving of money and time and worry is to confer as great a benefit upon society as to invent a new process of manufacture. As the inventor is allowed to reward

himself by exceptional gains, so the business manager who institutes economies in the distribution of goods may claim a right to appropriate the resulting benefit.

Such appropriation, we have seen reason to believe, will be of a temporary character, and the public will after a time share in the profits arising from these improvements. It is not improbable that the public is now getting this benefit to a considerable extent. Some of the industrial combinations have been obliged to sell their goods at such low prices as to have become insolvent. The most famous, or perhaps we should rather say the most odious of them, the Standard Oil Combination, has made its profits while greatly reducing its prices. Some attempts have been made to prove that, although the prices of the goods manufactured by these concerns have been on the whole reduced, yet they have not been reduced so much as they might have been in view of the increase of production and the improvement in its methods. This may very likely be true, but it is hardly sufficient to justify the violent denunciation to which these corporations have been subjected. If it shall eventually prove that their monopoly results in decreased cost of goods to the consumer, it will be impossible to maintain that it is unjust. If it shall appear that

their profits are kept up at such a figure as to increase the cost of goods to an appreciable extent, the charge of injustice would be sustained. Up to the present time it is impossible to determine what the ultimate result will be; but there is reason to believe that the injustice hitherto suffered by the public exists principally in the imaginations of writers for the sensational press, in the representations of disappointed competitors, and in the declamations of legislators greedy for blackmail.

We have seen that a reduction of the general rate of profit tends to decrease the number of small employers. It appears to be a somewhat hasty assumption that an increase of the exceptionally high profits due to business ability increases this tendency. The common accusation brought against monopolies is that they raise the prices of their products. If they do, since there are no complete monopolies, they benefit their small competitors. This conclusion is so obvious that the more intelligent among the denouncers of monopoly pursue the other line of complaint. In the opinion of a majority of the justices of the United States Supreme Court, combinations of capital may "temporarily, or perhaps permanently, reduce the price of the article traded in or manufactured, by reducing

the expense inseparable from the running of many different companies for the same purpose. Trade or commerce under those circumstances may nevertheless be badly and unfortunately restrained by driving out of business the small dealers and worthy men whose lives have been spent therein, and who might be unable to readjust themselves to their altered surroundings."

The Court recognises the fact that the introduction of machines and steam interrupted traditional habits of labour, and that the change from stagecoaches to railroads threw men out of employment. This is described as the inevitable accompaniment of change and improvement. But it is "wholly different when such changes are effected by combinations of capital, whose purpose in combining is to control the production or manufacture of any particular article in the market, and by such control dictate the price at which this article shall be sold, the effect being to drive out of business all the small dealers in the commodity, and to render the public subject to the decision of the combination as to what price shall be paid for the article. In that light it is not material that the price of an article may be lowered. It is in the power of the combination to raise it."

According to this theory of political econ-

omy it is for the public interest that the cost of articles of consumption should not be reduced if the persons who effect the reduction in cost effect it with that purpose in view. If they reduce the cost to the consumer, they ruin their competitors, who can not make a living unless they charge higher prices; and the fact that they can reduce cost shows that they can "dictate" prices. It is not easy to follow the distinction made by the court between those combinations of capital that in the first place applied steam to manufacturing and transportation, and those which apply improved chemical or electrical processes or more economical methods of any kind at the present day. We can not listen seriously to the assertion that Arkwright and Stephenson had no idea of reducing the cost of production, while Vanderbilt and Edison and Bessemer have been animated with this guilty purpose. It is absurd to maintain that any combination of capital can arbitrarily raise prices to any given figure. There may be a temporary "corner"; a very powerful combination attempted one in copper a few years ago, and incurred thereby the most ruinous losses. But it is palpably not for the interest of a concern engaged in production or transportation to attempt anything of this kind. It is apt to result eventually in loss.

It is not too much to say that no monopoly has, or can have, the power over prices asserted to exist by the Supreme Court. There are no complete monopolies. There are always existing competitors; there are more potential competitors. Size is an element of weakness as well as strength in industrial competition. The absolute loss to the American Sugar Company in a war of prices with independent refineries would be far greater than that of its antagonists. It can only inflict loss by reducing its prices, and only in an emergency would it be politic to sacrifice great profits in order to prevent competition. A small concern may have very powerful backers; it can say to a great concern, "Hands off, or we will make it cost you millions to thousands that we shall lose." This truth has come to be understood in the case of railroads. The strong roads, it is conceded, are at the mercy of the weak ones. The weak ones know it, and are always trying to increase their profits by frightening the big roads into concessions by threats of lower prices or rates. A man-of-war is a bigger mark than a torpedo boat. It may be able to sink its little antagonist, but if its own hull may be pierced in the process it will be prudent not to invite battle.

The imagination of the Supreme Court is ex-

cited by the idea that a combination of capitalists may possess a complete monopoly and hold a whole people at its mercy. Were such a monopoly to come into existence it would be completely at the mercy of the people. Let us suppose that the sugar-refining business was entirely in the hands of one concern. In such a case Congress could extinguish it in a day. It could remove the duty on refined sugar and raise that on raw sugar, and every American refinery would have to close. Congress can not do this now without destroying a number of independent refineries. In other words, it can not crush this monstrous monopoly, because there is no monstrous monopoly to crush. No patriot need be alarmed at the thought that his country may become the victim of absolute industrial despotism. Our great manufacturing combinations do not possess the powers attributed to them, and if they did it would be madness to exercise them. They do not court ruin, and they know how vulnerable they are.

Whether these conclusions are sound or not is really immaterial in our present inquiry. It is beyond question that workmen employed by great combinations of capital are, on the whole, at least as well paid as those in private employ. It is admitted that these combinations reduce the

cost of producing goods. If they increase their product they employ more labourers. If they lower its price they benefit all labourers who consume the product; and if they drive inefficient producers out of the business, it must be remembered that the workmen employed by such producers are the worst off of their class. Hence to confiscate the exceptional profits due to the combination of a number of competing concerns under one management may tend rather to decrease than to increase the compensation of labourers.

CHAPTER XII.

POSSIBLE EFFECT ON WAGES OF REDUCING THE RATE OF PROFIT.

THE fact that our progressive accumulation of wealth has tended to lessen gradually the rate of interest is not of a nature to deter men from saving. The result is too remote to influence present action. It is not generally understood, nor would it, perhaps, be considered if it were. It threatens no immediate loss, no diminution of capital, no impairment of security. At any moment the investor feels that he may withdraw his principal and spend it if he is not content with his income. What is most important of all, he thinks that the decline of interest is due to the operation of natural forces. It has taken place because property has been protected and profits increased under modern methods of government. It signifies that freedom of contract has been recognised, that production has been enlarged, that labourers have received a continually increasing compensation, and have had a

greater surplus above their necessary requirements. It is on many accounts the most encouraging phenomenon in the present situation, just because it has been brought about under the conditions here described. If it suggests to the far-sighted investor that he may not hope for such gains hereafter as he has had in the past, it tells the labourer that in the future wages may be higher, life and property more secure. If his savings will be less productive, they will be easier made; if his interest is diminished, it is because his principal is increased.

The proposal to anticipate a future stage of development by means of compulsory laws assumes not only that this conceivable stage of progress is certain to be reached, but also that it can be reached by establishing conditions different from those under which progress has hitherto taken place. In order to comprehend fully all that is involved in this assumption, we need to examine more particularly, even at the cost of some repetition, the manner in which our present wealth has been created and the motives which have influenced the classes participating in its creation. We know in a general way that owing to greater knowledge of the powers of Nature and increased skill in their application, together with enlarged capital and improved la-

bour, production has become far more effective. We know that the chief motive for increased production is the desire for gain or profit; and we know that while the share of this gain appropriated by capital has been absolutely greater, it has been relatively less. The general rate of profit has probably declined; the general rate of wages has certainly increased. Let us look at these movements in detail.

In the first place, we may remark that the advance that has taken place in the general rate of wages has been so gradual as to have escaped notice. To this day one may hear workmen refer regretfully to the high wages received during the civil war, although it is well established that these wages were higher only when reckoned in inflated currency. The great mass of investors are ignorant of this advance and of the relation which they bear to it. Every one who saves his money and deposits it in a bank is contributing his mite to the fund available for the payment of workmen, and is therefore doing what he can to raise their wages; but he has no such intention. Investors may find their income declining, but if they are aware that the higher wages paid workmen contribute to this result, they do not feel that they have been amerced for that purpose. Were they told that they were

under obligation to accept a lower rate of interest or profit in order that wages might be increased, their feelings would be very different from what they are now. The view of justice involved in this obligation might not commend itself to them at all. They might regard it as the height of injustice, and their attitude would be a very important element in the situation. If the supposed claim of justice can be enforced only by the use of measures that will alarm or exasperate the possessors of wealth, its purpose may be defeated. If such people become convinced that they are the victims of oppression and spoliation, they may resort to measures that will result in withdrawing their property to a greater or less extent from productive employment. If we can not enforce our supposed requirements of justice without this result, there is nothing for us to do but to confess that we have been mistaken in these requirements.

No mere assertion, or bluster, however, is sufficient to prove this point. It is very easy to condemn this measure or that on the ground that it will discourage saving, and thereby lessen production. But we know very well that some accumulation will take place without the inducement of profit or interest. Macaulay tells us that the father of Pope, the poet, who retired

from business in the city about the time of the Revolution, carried to a retreat in the country a strong box containing nearly twenty thousand pounds, and took out from time to time what was required for household expenses; and it is highly probable that this was not a solitary case. Many thrifty princes have stored up large sums of gold and silver, and in the earlier stages of civilization hoarding was extensively practised. It was but yesterday, we may say, that the French peasantry gave up the practice of hiding silver in their stockings or behind their wainscots; and the constant absorption of this metal by Asiatic peoples, which goes on to this day, is due to the same propensity.

It does not appear, however, that the existence of such practices can have any effect upon the compensation of labourers, except to depress it. The motive for hoarding is the desire for security; but the motive for employing labour is the desire of gain. These motives are necessarily in perpetual conflict. If the latter were extinguished, there could be no reason given why any one should risk his money in the ventures of commerce. If he keeps it it is safe, but if he pays it out in wages he may lose it. Mere accumulation, therefore, can never promote production or benefit labourers. Some rate of profit,

however small, must be allowed, or the employment of labourers on any considerable scale would cease altogether.

It is idle to attempt to determine the comparative effectiveness of these motives. Many persons enjoy gambling, or what they prefer to call speculation. The excitement derived from the hope of great gain outweighs the fear of loss, and they are willing to take chances even when they know that the chances are against them. While this propensity meets with general disapproval, it can not be denied that it has had much to do with the progress of civilization. We owe an immeasurable debt to our inventors; but their pursuits are of a highly speculative character, and their discoveries are only brought into general use by the aid of those who are willing to risk their money in enterprises whose success is problematical. Upon minds of this character it is impossible to determine what would be the effect of a legislative reduction of the rate of profit. It might deaden their interest in speculation, and make them appreciate the advantages of security, or it might stimulate them to more desperate ventures. Nor is it more possible, perhaps, to determine how the interests of the community will be affected by their action. But we may reasonably conclude that, as the prospect of in-

creased gain is known, as a rule, to stimulate enterprise, so the prospect of diminished profit will have the opposite tendency, even in the case of the more venturesome.

As to those who do not directly employ labourers with their capital, it is evident that the number preferring a moderate return, with security, to the uncertain chances of speculation is very large. This is indicated roughly by the extent of those forms of investments which are, on their face at least, not speculative. To a great extent the buyers of real estate, and especially the holders of bonds and mortgages, may be regarded as generally investing their savings with an eye principally to their security. The effect on this class of a sudden fall in the rate of interest may vary according to the extent of their possessions. Those having the greatest incomes would presumptively suffer less discomfort from their reduction than those having much smaller ones. This is not altogether a matter of conjecture, since many large estates are known to be invested in those "securities" that pay the lowest interest. A sudden fall in this rate might in such cases have little effect on accumulations already in existence. The principal would be kept intact, although the income was reduced.

But the same might not be true of future

accumulations. Wealthy persons might feel that, after making a sufficient provision for their ordinary requirements, it was hardly worthwhile to economize further. Before the reduction of interest their income was sufficient to enable them to live on a certain scale and to save something as well. Now, although their principal is undiminished, their income is not sufficient to enable them to save anything unless they reduce their scale of living. Some persons would undoubtedly, under such circumstances, reduce their expenses, but others would not. Penurious people and those having children or other relatives for whom they wish to provide would be included in the former class; more generous liver and those under no obligations to provide for others would constitute the second. It is at all events possible that a somewhat diminished rate of accumulation would result, for the income out of which savings were made would be smaller.

Hardly any one will deny that a sound condition of industry may be more important to labourers than a rise in wages; nor can it be denied that wages have to be from time to time reduced in particular trades in order that employers may not abandon them. Any forced or artificial advance in wages, although apparently a present gain to labourers, may thus be more than

balanced by future losses. The apprehension is constantly felt in England that her trade will suffer from the competition of countries where the rate of wages is lower. Her industries are dependent on the supply of coal, and the miners' wages have sometimes been raised to a point that made some coal mines unprofitable. The high price of coals thus caused reduced the profits of other industries to such an extent as to affect trade. In this way a general reduction of wages followed, either in the shape of reduced rates or diminished employment.

Such conditions impair the security of the savings of labourers. Failures take place, mortgages are foreclosed, credit is contracted. Some capital is thus lost, and more lies idle on account of apprehension. Hardly any member of a modern industrial society can gain in one direction without losing in another, unless the whole community gains. And this community of interests is bound up with continuity of development and progress. Any disturbance of the social order is propagated throughout society. The very apprehension of disturbance is prejudicial; it is not confined in its effects to those who feel alarm, but reaches all those who may be influenced by their action. To maintain that there is any resemblance between the results of a grad-

ual decline of profits through the operation of natural causes and the results of a sudden decline through laws destroying existing rights of property, is like maintaining that the fear of death from old age is like the fear of being murdered by a highway robber. Every one knows that he can take nothing out of this world, and that every night, to use the metaphor of the sacred poet, he pitches his tent a day's march nearer home. Such thoughts, however, do not occupy his mind when he is engaged in business, and he devotes himself to making a living without troubling himself about dying. But if he is threatened with assault by marauders, his emotions are altogether different; and when his property is attacked by those whom he has regarded as its natural guardians, when the law deprives him of the rights which it formerly guaranteed, it is scarcely credible that he should continue his former practices of accumulation and investment.

In estimating the results of such a change as is proposed, we can not confine ourselves to the contemplation of what might be expected to happen in an isolated society. Our aim being to establish a reign of justice, we can not disregard the effect upon mankind of measures adopted by our own State. If we could succeed in

raising the wages of American workmen by legislative fiat, we could not assume that we had made any advance toward justice without assuring ourselves that labourers elsewhere were not prejudiced. If we were governed by expediency this might not be the case. We might then say that we were not our brothers' keepers; that we must seek the welfare of our own society; that so long as jealousy and hatred prevailed between nations it would be impracticable to realize the ideals of the brotherhood of mankind.

But we can not say this if we propose an industrial revolution in the name of justice. We must look on the world as a whole, and its development as a continuous process. We must recognise that the institutions of one nation can not be changed without affecting other nations; that the rewards of labour and capital in one country frequently have a very close connection with their rewards in other countries. We must be prepared to admit that what is intended to promote justice in a particular case may hinder it in the world at large. Hence, unless we are assured that our revolution is in the line of the world's progress we do wrong to begin it.

We may find that success in decreasing the rate of profit in this country is followed by falling wages. To some extent this might operate

to improve the condition of labourers elsewhere, and the ends of justice would thus be measurably attained. It is indeed conceivable that abstract justice may require the inhabitants of a particular region to sacrifice themselves for the sake of mankind. But before destroying our own prosperity with a view to promoting that of the rest of the world, we should require very clear demonstration that such a result must follow.

These general observations are sufficient to show that a decrease in the rate of profit caused by increased charges is a very different thing from a decrease caused by the growth of capital, and may have very different effects on wages. There is, unfortunately, much evidence proving that such effects have been produced in our own country. We can not define capital without recognising the psychological element. It is wealth *intended* to be used in production, and the intention of its owners is subject to modification by many causes. It follows that the amount of capital is subject to very sudden and very extensive fluctuations. Fixed capital may not at first sight seem capable of reduction, but to other capital the saying that riches have wings applies. Such capital is not confined by geographical boundaries; it belongs to the world, and it can go whithersoever its owners choose. If they are not

satisfied with the protection afforded in one jurisdiction they will seek another.

Within a few years much capital owned in the Eastern States has been recalled from investment in the West. So much has been lost as to make investors apprehensive; and the disposition of legislators has not always been so reassuring as to make it seem prudent to renew mortgages when they fell due. Probably much more capital owned by European investors has been withdrawn from this country altogether. Under normal conditions this country is an importer of capital, just as it is an absorber of immigrants. The opportunities for the employment of capital have been very exceptional. The natural wealth of the country is greater than that of most other parts of the earth, and, what is more important, the protection of property has been better than has been obtainable in other countries of undeveloped resources. Hence there has been a comparatively steady and increasing flow of capital hither from the great reservoirs of Europe. We can normally employ perhaps several hundred million dollars of additional foreign capital every year—that is to say, we can so use this amount as to make satisfactory profits for American employers, satisfactory wages for workmen, and satisfactory interest for foreign

lenders. The "balance of trade," therefore, should be regularly against us. The value of our imports ought regularly to exceed that of our exports.

For some years prior to 1896 the value of our imports declined, while we exported much gold and increased the value of our other exports. Immigration also declined. But during the year 1896 this tendency became especially marked. The value of our exports is reported to have exceeded that of our imports by about \$325,000,000. We imported some gold, and there were dealings in bills of exchange of very exceptional character; but, on the whole, this balance can have been adjusted in only two ways. Either foreign owners of American securities disposed of them in this country, or American capitalists made investments outside of this country. Even if we allow a large sum for interest paid on obligations to foreigners, and for the disbursements of Americans abroad, there is a difference that can be explained only by the withdrawal of capital from investment here.

The attention of the public is not invited to transactions of this kind. The long-headed men who look far forward in securing the interests of those dear to them are not in the habit of disclosing their plans. They do not lay bare

all their secrets in interviews with newspaper reporters. But although they can conceal their action as individuals, they can not altogether hide its collective results. We know that capital has to some extent gone out of the country, and we know that our prosperity has hitherto depended on its coming into the country. It may not be true that six hundred millions, or even three hundred millions, of foreign capital that would under former conditions have been invested in this country, have not been invested here. But it is true that capital has proved its power of taking flight, and it is also true that the result has been to reduce the compensation of American workmen.

The idea that fixed capital can not be reduced is incorrect. We are, as has been pointed out, a growing country, needing continually larger fixation of capital. But the additional investment is the voluntary act of capitalists. They will not make it if they think they will lose it; they will be particularly reluctant if they think they may lose it by confiscation. To cease to add to our fixed capital is to effect a relative reduction in its amount; and it is perfectly feasible to reduce its absolute amount. Several hundred million dollars' worth of buildings is annually consumed by fire. It is optional with the

owners to rebuild; if they see no profit in it, they will employ what they get from the insurance companies in other ways.

Perhaps an equal value annually disappears in various forms of deterioration. Pasture is overrun with bushes; meadows "run out"; barns and houses decay. Manufacturing concerns find that it is better to give up operating some of their mills, or not to renew some of their machinery as it wears out. Even railroads are sometimes abandoned. There are hundreds of miles of railroad that would be abandoned did not the owners hope by putting in more capital to secure some eventual return. When they have thrown enough good money after the bad, they give up hoping, and the unprofitable enterprise collapses. Some few shreds and tatters of the capital that had been fixed in it may be saved; a bankrupt railroad may earn its operating expenses. But there is a partial loss, if not a total loss, and there may be enough partial losses to diminish the total amount of fixed capital.

As we have pointed out, whatever charges are imposed on fixed capital must be paid out of the income produced by that capital. It is unfortunately beyond dispute that during the last few years railroads have met reductions of income by reductions of wages. They have either reduced

the rate of wages or the number of men employed, or both. We are justified in concluding that where the return upon investments of fixed capital is materially reduced, the amount of circulating capital applied in connection with fixed capital will also be reduced, and that the gross if not the proportional share of labourers will be affected by the reduction. Railroad managers are generally ambitious and optimistic; banking houses are blinded by the desire to make commissions; but prudent investors are not likely to make further investments on any large scale in new railroads, if there is reason to expect that the rate of profit on such investments is to be reduced.

Every year a number of men engaged in business die, and a number fail. Under ordinary conditions a greater number take the place of those that drop out. They do this with the expectation of profit; but if they can form no such expectation they will abstain from new ventures. In other words, the amount of capital actively employed will be reduced, and unless the number of labourers is correspondingly reduced the rate of wages can hardly be maintained. But to reduce the number of labourers is a slow process, and a very distressing process. In this country a certain degree of reduction is quickly accom-

plished by checking the influx of immigrants; but even this relief is not enough, in times when diminished profits are anticipated, to prevent large numbers of native workmen from being thrown out of work.

Our recent experience certainly furnishes ample proof of the proposition that the anticipation of diminished profit caused by legislative action can reduce not only the amount of capital actively employed, but also the proportion applied to the payment of wages. Investors have apprehended that Congress might pass laws affecting the standard of value to such an extent that they might not recover the value with which they had parted. If these things are done in a green tree, what shall be done in a dry? If a feeling of uncertainty as to the return of investments has produced such disastrous consequences to labourers, what will be the effect of a certainty of diminished returns intentionally caused by legislative fiat?

To sum up the argument, we find that it is perfectly possible, as this country knows to its cost, for legislators to decrease the rate of profit and the rate of wages at the same time. It is also possible, although our experience in this direction is much more limited, for legislators to increase both profits and wages. The fact that

wages are necessarily paid out of previously acquired income by the voluntary appropriation of some part of this income to their payment, constitutes the great obstacle to their compulsory increase. The natural result of a decreased rate of profit is a decreased rate of wages. This tendency may be overcome; it has been overcome during a considerable part of the century now drawing to its close. But it has been overcome by a very extraordinary cheapening of the processes of production and transportation. The gross income of the community was increased to such an extent that the diminution of the rate of profit did not check the disposition to accumulate. The purchasing power of the profits was increased to such an extent as to counterbalance their diminished rate.

It may be that the cheapening process will continue. We can not predict what inventions and discoveries may yet be made. It is thus possible that wages may still further increase at the expense of profits. But it by no means follows that our legislators can exercise the magical power of Bessemer, or Bell, or Edison. They can destroy, but they can not create. It may be admitted that their action in reducing the rate of profit may possibly be coincident with the beneficent results of invention. This, how-

ever, would be a matter of chance, and in such event the reduction ordained by statute would not be caused by it, but by independent forces; for if those forces did not come into play the result might not follow.

CHAPTER XIII.

PARTICULAR MEASURES FOR REDUCING PROFITS.

No practical scheme for the compulsory increase of wages has ever been clearly formulated, and it might at first seem that none was conceivable. The contract of hiring being a voluntary one, the employer must be able to enter into it or not at his discretion, and if he is obliged by law to pay a higher rate of wages than he thinks he can afford, he will not enter into the contract. Nevertheless, we can conceive methods of accomplishing this result indirectly. The expenditure for public purposes in every civilized community is a considerable charge on the income of its members, and it is not on its face impossible to put this charge on the income of certain classes, and to exempt the income of others.

In point of fact, something of this kind is thought to take place now. The income of labourers is their wages, and there are no taxes assessed on wages. But it does not follow that

they are exempt from taxation because they are not specifically taxed. It is generally maintained that a tax on imports, although collected from the importers, is only advanced by them, and is really paid in the end by those who consume the goods. So an excise collected from brewers and distillers, and the sellers of their products, is commonly regarded as paid by those who use them. So far as labourers consume these taxed commodities, they contribute to the payment of the taxes levied on them; and so far as they have no other fund, they must contribute out of their wages.

It is not, perhaps, so clearly understood that other taxes may have similar effects, yet in many cases this appears demonstrable. During the civil war a tax was imposed on the receipts of companies transporting passengers; but they seem to have raised their fares so as to make their passengers pay the tax. In the case of the street-car companies, as they could not increase their rates by the precise amount of the tax, owing to the impossibility of dividing a cent into fractions, they were obliged to charge six or seven cents instead of five or six. Probably this increased charge somewhat decreased the number of their passengers, and thus tended to diminish their profits. But whether this is true or not,

it is evident that such passengers as they did carry paid more for the service than before the tax was imposed, and that they therefore paid a part, if not the whole, of the tax. In fact, we may lay down the general rule that any tax paid by those engaged in a particular kind of business tends after a time, if not at once, to be shifted to the shoulders of consumers, or of the community at large.

A tax on buildings, for example, may be shifted by the owners to the tenants, and by the tenants to their customers, and by their customers to the general public. Nothing hinders the owner from demanding an increased rent except the knowledge that the tenant will not pay it; and in some cases he knows that the tenant must pay it. If, under ordinary conditions, the landlord raised the rent to a figure beyond that which gave him the usual return on his investment, other people would put up buildings and let them at the normal rate, and thus secure the tenants. But now the increased rent only corresponds with the increased tax, and new buildings would be subject to this tax just as old ones are, so that there would be no inducement to build them.

We are confronted everywhere with the universal law of economics above referred to—the

equalization of rates of profit. In most cases, if an expense is incurred by those owning a particular class of property or engaged in a particular kind of business, they are able very soon, if not at once, to call on the rest of the world to share the burden with them. When this can not be done immediately, it is done gradually through the diminution of that class of property or that business. In every case, therefore, we may say that the attempt to diminish particular profits by taxing them leads eventually to the diminution of profits in general. The effect of such a diminution we have already referred to, and it is unnecessary to repeat the conclusions heretofore suggested.

The demagogues of this country who advocated the tax on incomes, therefore, if they believed that labourers would pay no part of it, might have found that they were mistaken. The measure that was adopted in 1894 provided for a tax on the dividends of corporations as well as on the interest paid on their debts. This would clearly have been paid in the first place by the stockholders in these corporations and by the holders of their bonds. Such securities are very largely held by fiduciary institutions, and their depositors would thus have contributed to the payment of this tax. In many cases, how-

ever, the corporations, as was formerly the case with the street-car companies, would have been able to raise the rates for their services, and the tax would thus have been indefinitely diffused. To some extent, although no one can say to what extent, the same would have been true of the tax on the income of individuals. So far as that income was derived from trade or professional services it would in some cases have been increased by higher charges to an extent greater than the tax, in some cases to a less extent, and in many probably not at all. It is altogether impossible to determine whether, on the whole, the collection of this tax would have eventually lightened the burdens of labourers or not; for the expense of collection, including therein the annoyance and waste of time to every one that had to make a return, as well as the premium offered to those who evaded the tax, would have been in the aggregate enormous, and those upon whom this expense fell would apparently have been to some extent less able to pay wages.

It is thought expedient everywhere in this country to make the cost of schooling for the children of the common people a public charge. In some cases the Government furnishes books and transportation for the pupils, and the gratuitous distribution of food is occasionally demand-

ed. This policy has been adopted for various reasons, but it is commonly approved on the ground that in this way the common people are exempted from the cost of educating their offspring. But the cost must fall somewhere; it must be paid out of profits or wages. We do not explain it by saying that the state, or the public, or the Government, bears the charges. Individual men bear them, in the shape of reductions of their income or of their wages.

It is quite conceivable that if the cost of the common schools were directly met by those educating their children at them their income might be correspondingly increased. Such a statement is altogether paradoxical to Americans; but it would be equally paradoxical in a European country to suggest that the Church could be sustained without the support of the Government. We have proved that it can, and the poor are nowhere better supplied with efficient religious institutions. In fact, the interests of all sorts and conditions of men are so thoroughly blended and intertwined by the action of innumerable social forces as to insure the failure of almost all legislative attempts to improve the condition of one class by imposing burdens on others. Taxes on profits may tend to reduce wages; taxes on wages may indirectly reduce

profits. Certain individuals may for a time gain or lose because of such attempts; but neither any considerable class of citizens nor the community at large is likely in the long run to receive much but injury from them.

The consequences of taxing interest and profits in general with a view to increasing wages are of such dubious and uncertain efficacy as usually to deter legislators from the attempt. But since the income of the possessors of capital is to a considerable extent expended for luxuries, it is conceivable that this portion of income may be taxed without at all diminishing that portion applied to the payment of wages in productive employments. Taxes of this kind were in favour during the middle ages. Those desiring to consume certain commodities were obliged to pay for licenses entitling them to such gratifications. Yet it would be hard to show that such exactions have ever resulted in any lightening of the burdens of the poor. The difficulty with these taxes is that no principle can be established for defining luxuries. The nearest approach to a definition is to call a luxury whatever certain people indulge themselves in, when in their neighbours' opinion they could just as well do without it. No one can deny, however, that the opinion of the majority would pronounce luxuries a number

of things that many poor people, as well as rich, find necessary for their comfort, perhaps even for their existence. Old and fine wines are called luxuries because they are drunk by rich men who are in good health. But doctors consider them a necessity in certain cases, and if the life of a poor man can be saved, or the strength of a poor woman restored, or even if their suffering can be alleviated by the use of these remedies, it seems deplorable for the Government to put them out of their reach by taxing them. The law, however, can not inquire into the circumstances under which every bottle of wine is consumed, and if it hits the poor while aiming at the rich, that must be accepted as an essential feature of sumptuary legislation.

It would be easy to multiply proofs of this. To the ordinary Philistine the notion that works of art, or beautiful things in general, are not luxuries is paradoxical. He knows that if it came to choosing between good things to eat and drink and wear, on one side, and pictures or music, or even books or flowers, on the other, he would choose the former, calling them the necessities of life and the latter the luxuries. Nevertheless there are many poor people whose tastes are different, and who content themselves with plain living in order that they may procure

what are necessities for their natures. Indeed, we can not separate the necessary from the luxurious unless we draw the line at the very bottom of the scale. Just so much food of the cheapest kind as is sufficient to maintain health; just so much clothing and shelter, also of the cheapest kind, as will preserve vitality—only this is necessary to man. Whatsoever is more than this cometh of luxury. As it is palpably absurd for the Legislature to attempt to tax everybody on the luxuries he consumes with the expectation of improving his condition, so it is equally absurd for it to imagine that it can discover any articles of extensive consumption the taxation of which would not fall on the poor as well as the rich. To determine the degree of incidence on the different classes would be an extremely difficult undertaking, and one for which the Legislature is altogether incompetent; nor can any one, even if he entertain the highest opinion of the capacity of legislators in general, seriously contend that those whom we elect are qualified to formulate lists of articles to be banned on æsthetic grounds, or because they are prejudicial to that form of social development which, according to the doctrine of evolution, may hereafter prevail.

Still, we must observe, the view that taxes can be drawn from that part of the income of the

community which would not be productively employed contains an important truth. Taxes, as we have seen, must be paid out of income. They may often for a time and in particular cases come out of principal, but measures producing this result are of the nature of confiscation rather than taxation, and can not be permanently effective. Taxes, then, that are paid out of that part of income which would be employed as capital are prejudicial. In any sound polity they must be drawn out of that other part of income which is unproductively consumed. In other words, taxation is injurious and excessive when the citizens diminish their savings rather than their spendings. Bearing this in mind, we can understand why that most benevolent of men, Adam Smith, should have declared himself in favour of taxing the luxuries of the poor. So little revenue has been derived from attempting to tax the luxuries of the rich, that governments have been impelled to levy their exactions on the expenditures of the poor, and it has seemed better to tax those expenditures that can be reduced with the least suffering. It seems to be commonly assumed, therefore, that as the poor are able to obtain the ordinary necessities of life, and at the same time to consume tobacco and alcoholic drinks, these articles should be subjected to taxation.

We are concerned with this theory only in so far as it illustrates our proposition that taxes ought to reduce as little as possible that part of the income of a people which is saved. It is that part which insures future progress, the decrease of which insures lower wages. Taxes on so-called luxuries may induce some men to give them up, and thus increase their savings. They may cause other men to devote what they would have saved to meeting the increased cost of their luxuries. So far as these taxes are productive of revenue they perhaps indicate that most men prefer to continue their luxurious consumption and economize elsewhere. In a broad view of the subject it seems that the amount of taxation is of more consequence than its subjects. No writer has demonstrated that a tax on articles consumed by the poor is permanently paid by them alone, nor that a tax on bread or clothes would burden them collectively more than one on beer or tobacco. Nor has it been demonstrated that taxes on profits are never paid out of wages. But it requires no demonstration to convince an impartial inquirer, that as taxes are certainly taken out of the gross product of the whole community, so they tend eventually to be assessed upon the different shares of that product in much the same proportion as the other expenses of production.

We must now consider how far the condition of the poor can be improved by some measures of confiscation that have recently come into favour with our legislators. The colossal fortunes acquired in modern times by single individuals are not easily reconciled with the theories of democracy, and it is not surprising that so common and violent a passion as envy should affect the policy of our governments. But we must not forget that various attempts have been made by rulers in all parts of the world and at all times to compel the possessors of great wealth to give up a part of it. In many Asiatic kingdoms the most drastic methods have been employed in dealing with the rich, and they have been imitated to some extent by European despots. But where these methods have prevailed the condition of labourers has been invariably wretched, and it has been wretched precisely because of the general insecurity that must accompany confiscation. If we merely aim to decrease the property of the very rich, the problem is comparatively simple; but if we aim to increase that of the poor by confiscating that of the rich, we may create economic conditions that will defeat our purpose.

Some persons apparently suppose that a law might be passed forbidding any one to possess

more than a certain amount of property, and ordaining that any excess should be devoted to public uses, thereby exempting the great mass of citizens from taxation. The difficulties in the way of such legislation are numberless. It is hard to fix the maximum amount of property that any one should be permitted to enjoy. The millionaires would set the limit high; the populace would set it low. The great majority regard a hundred thousand dollars, or even fifty thousand dollars, as a great fortune, and the majority would determine what the limit should be. Even ten thousand dollars is far beyond the aspirations of most people, and if the matter were submitted to popular vote, it would seem reasonable to expect that the possession of any fortune greater than what the ordinary man can hope to acquire would be pronounced unjust. But any exceptional burden laid on such fortunes would affect the employment of labourers very directly.

Even if the attempt at confiscation were confined to very great fortunes it might be defeated.* We can not expect the co-operation

* We are told by M. des Essars, of the Bank of France, in his History of French Banking, that about 1715, financiers, and especially revenue farmers, having become extremely obnoxious to the people, who imputed to them misfortunes for which the rapacity of

of wealthy men in schemes intended to deprive them of their property, and we can not nowadays compel them to disclose what they own by applying the *bastinado*, or pulling out their teeth, as was done to the Jews by some of the English kings. The possession of wealth would be concealed, and such concealment is known to be practicable. Under our law all tangible property is taxable, and all rights in that property, or choses in action, are also taxable. But as it is the tangible property that produces revenue, the common sense of mankind revolts against the assessment of mere evidences of debt; and although such personal property is nearly every-

the Treasury should have been held accountable, the regency determined on making an indiscriminate spoliation of this class, or, as the saying was, upon making them "disgorge." To this end they were forbidden to quit the country under pain of death, and a Chamber of Justice was erected to take cognizance of their official extortions. They were ordered to produce all their accounts for twenty-seven years, to prove what they were worth at the beginning of this period, and to furnish a minute account of their possessions at its end. False testimony was punishable by sentence to the galleys for life, and rewards were offered to informers. If no offense could be proved against the accused, the Chamber of Justice let him off with the confiscation of four fifths of his earnings during twenty-seven years and the admonition that he retained the remaining fifth by the grace of the king. About six thousand persons were prosecuted, whose possessions amounted by their own showing to 1,200,000,000 livres; 4,410 of these were condemned to pay a total of 210,000,000 livres; but many of them were able to find powerful protectors, and by 1717 the Treasury had recovered only 70,000,000 livres, and barely half the fines imposed were ever collected at all.

where taxable by law, the amount actually taxed is comparatively insignificant.

In some communities very earnest attempts are made to collect such taxes, and capital accordingly flies from such communities to those where assessors are more lenient. We can not forbid men to travel; no practical plan has ever been suggested to prevent rich people from taking their money to Europe and spending it there, although the practice has encountered the sternest reprobation from some moralists. So far as personal property is concerned, to prohibit the possession of more than a certain quantity of it would be a mere *brutum fulmen*. Unless the whole fabric of our law were torn to pieces, and the transfer of personal property surrounded with the same formalities as that of real estate, no limitation of ownership would be practicable. But to require such formalities would destroy civilization. If no purchase of goods could be made except by deed, executed, acknowledged, and recorded, the entire traffic of mankind would be arrested. The baker could not give title to his rolls, the dairyman to his milk, or the butcher to his meat. But unless this formality were enforced, no one could be hindered from paying money; and unless we could make it impracticable for rich men to receive money, we

could not keep them from hoarding it, and hiding it, and carrying it where they thought it would be safest.

As to real estate, it is conceivable that limitations of the amount owned might be to some extent enforced, although obviously at great expense. A man may own land in every State, and yet the fact be known only to himself. The only way in which large ownership could be prevented would be by disqualifying large owners from giving title. But this would impose an intolerable burden upon the purchasers of land. To be sure of their property they would have to search in all the counties of all the States, and they could never make these searches terminate together. No people accustomed to our present methods could be brought to submit to such a system. But if large owners of land were able to give good title, it is safe to say that they would never be found in possession of more than the permitted quantity of land. They would find trustworthy agents to hold land for them; and if the difficulties proved serious, they would gradually transmute their holdings of real estate into personal property.

The existence of these obstacles has caused legislators to turn their attention, of recent years, to the development of a system of taxes known

variously as inheritance, or succession taxes, or as legacy, or transfer, or death duties. Since it has proved impracticable to collect exceptional taxes from those in possession of great fortunes while they were alive, it has been thought that better success might be had with those who succeed to these fortunes upon the death of the original proprietors. The opportunity is given by the necessary publicity of the proceedings of probate courts. No legislation can be devised to prevent a man from parting with his wealth while he is living; but when he dies no title can be made to what he owned without the aid of the law. Many ingenious and refined reasons have been suggested why this aid should be granted only on the payment of a fine or tax; but we are not concerned with the validity of these reasons. Our inquiry is limited to the consideration of the economic effect of such taxes. Can the Government derive sufficient revenue in this way to lighten the burden of taxation for the poor? If not, the death duties, whatever theoretical merits they may possess, do not contribute to the attainment of our ideal of justice.

It may be conceded, for the purposes of argument, that the constitutional difficulties in the way of imposing exceptionally high death duties

in the case of great estates can be overcome. It may be conceded further that, if these duties are moderate in amount, the possessors of great estates will not take the trouble to evade them. But if they are moderate in amount they will not be sufficiently productive to reduce appreciably the rate of other taxation. The amount now demanded for public purposes is so great that a small percentage of the value of the large fortunes that are administered through the probate courts would not furnish any sensible relief to the poor. It would therefore be thought necessary, and it would doubtless be popular, to make the tax very high, and it has lately been proposed in the State of New York to confiscate as much as fifteen per cent in some cases of decedents' estates.

It can hardly be contended that the prospect of such exactions will be contemplated with indifference by the wealthy. If they can so arrange their affairs that their property will not be subjected to this amercement, they will certainly, as a rule, be tempted to do so. And they unquestionably can so arrange their affairs. No statute of this kind has yet been devised which will defy the ingenuity of astute lawyers to circumvent it. Their schemes may be thwarted by accident, and may involve much inconvenience

and expense; but they can be made on the whole effective. Much confidence would have to be reposed in expected survivors; but no more than men now often repose in their executors. Doubtless many rich men are comparatively indifferent as to what becomes of their property after their death. Provided they can enjoy it and control it while they live, they care little for those who come after them. But such is not the rule. Those who have children desire to assure them comfort and social position; those without relatives wish to endow institutions; and they would generally prefer that their accumulations should be expended under their own direction, and not by our legislators.

Since the tax is imposed as a charge for the assistance rendered by the law in confirming the title to property, that assistance will be to a great extent declined. Other and cheaper methods of making title will be resorted to, and the revenue from this tax will eventually prove to be much less than is anticipated by its advocates. Nor should we forget to reckon the expense of collection in estimating the net return to the public. The statutes imposing the tax are necessarily so complicated as to make it unsafe for the representatives of decedents to proceed without legal advice, and the fees of lawyers, whether

paid by the Government or by these representatives, contribute a deduction from the gain to be derived from this source by the community.

In the city of New York no lawyer of standing would care to go through all the formalities required for the settlement of this tax for less than twenty-five or fifty dollars, even in the case of a small and simple estate. If the estate is large, and if questions arise that have to be litigated, the fee may be augmented ten, or fifty, or a hundred fold. To this must be added the salaries and fees of the taxgatherers. The law had already provided for the appraisement of decedents' estates; but this statute creates a duplicate set of appraisers to repeat the process and double the charges. It adds a list of salaried officers in the surrogates' courts, and a further set in the district attorneys' offices, and it authorizes these attorneys to receive for their own use very substantial costs in proceedings instituted by them, whether successful or unsuccessful; while the custodians of the money collected are paid a percentage on its amount. One of these custodians, it is estimated, was presented with about sixty thousand dollars for his services in receiving the tax levied on one estate, although his functions consist principally in depositing checks. To

many minds this suggests robbery rather than justice.

The tax is defended by many enthusiastic theorists, but it is probable that no other tax imposed by the State of New York inflicts so great a burden on the community in proportion to the revenue it produces. However levied, it is frequently paid by those ill prepared to pay it. If levied on small estates, it is oppressive to widows and orphans. When a man engaged in active business dies, his family is deprived of his earnings, and the Government seizes on a part of the savings on which his family must now depend for support. Even when the decedent was out of business, his death frequently reduces the income of his family. And in the case of great estates, the payment of the tax must, as a rule, come directly out of the fund of loanable capital, and thus tend to reduce the part available for the employment of labour. Whether this tendency will result in a serious loss we can not yet tell. We know that, in the past, dread of confiscation has made some men live meanly and hoard their money, while others have preferred to spend it before the Government could seize it. We may find that the new taxes do not materially discourage the accumulation of wealth; but as the tendency of reform has been to re-

move obstacles to accumulation, the imposition of penalties on this process is likely to check it to some extent.

We may, however, be quite sure of one result: that the abilities which have enabled some men to acquire great fortunes by objectionable and even illegal practices will enable them in some measure to protect their wealth against confiscation. It will be the wealth of the defenceless that will suffer—the wealth of those who are unable to circumvent the law, or who consider it wrong to evade any burden laid on them by legislators. Persons of this description generally use their wealth beneficently while they live. They support many charities; they generally have long lists of impoverished and helpless friends and relatives who call on them for assistance. These pensions they do not wish interrupted by their death; but the taxes on legacies and bequests are a distinct discouragement to such charitable purposes. The death of such citizens can seldom be a gain to the community. They generally add to its wealth by living, and the confiscation of their property at death by the community may be but adding one loss to another.

To this whole line of argument there is one comprehensive reply. Granted, the objector will

say, that if the income of the wealthy is diminished they can not pay so much in wages as before, what does that prove? The proposition is self-evident; and it was quite unnecessary to establish it by many pages of elaborate demonstration. The diminution of the income of the wealthy and the decrease of wages are but half the phenomenon, but one side of the case. What is taken from the rich is taken by the Government and applied to the promotion of the general welfare. It may be directly employed in the payment of wages; part of it is necessarily so employed. It is, at all events, expended for public purposes, and while the action of the Government apparently reduces wages, it really benefits the poor by furnishing them what wages buy, and what they would have to purchase with wages did not the Government purchase it for them. How else than through the Government can roads be provided? Can labourers establish parks with their wages, or lay out streets, or maintain the courts and the post? The possibilities of beneficent public expenditure are infinite, and while such measures involve the temporary reduction of the income of the community by taxation, they restore in the end more than they take away.

The answer to this objection I shall not here

attempt to state, for the simple reason that I am afraid to tax further the patience of those readers who have followed my argument to this point. But, although a conclusive answer would fill a volume by itself, it is possible to give its outlines within a narrow compass. To the assertion that public expenditure restores more to the community than it takes away, except within certain well-defined limits, the proper reply is a flat contradiction. The evidence of the wastefulness of governmental administration is perfectly overwhelming. *Si monumentum quæris circumspice*. What rational man will maintain that the one hundred and forty million dollars taken annually by taxation from the earnings of the people and distributed to pensioners is not an oppressive burden upon industry? That sum is more than can be saved in a year by a million families of farmers. It would be easy to select a million whose total yearly income in money does not amount to that sum. It is a half year's wages for a million common labourers; and although it is more than thirty years since the close of the civil war, and although no pensions are paid to those who fought on the side of the South or their dependents, it would be rash to predict that new pension acts will not hereafter increase the burden even beyond its present size.

Much of the money paid in pensions is well expended; but no one who has acquaintance with pensioners can deny that a very large part of it merely promotes idleness and encourages dissipation. It certainly requires great hardihood to maintain that if the Government were to leave one hundred millions of this sum in the possession of those who earn it, it would not be expended so as to promote the general welfare more than at present. Had the Government been relieved from this expenditure, the prodigious losses to the country caused by the imminent bankruptcy of the Treasury during the last few years might have been altogether averted.

In what department does the expenditure of money by Government produce results commensurate with those obtained by the private investment of capital? Have the extensive purchases of silver bullion by the Treasury resulted, on the whole, in a satisfactory profit? Shall we instance the governmental expenditure for printing, or for the distribution of seeds, or for the production of rain by exploding dynamite? Will the vouchers for supplying the manifold luxurious requirements of our legislators bear publication? What shall we say of the policy adopted in the State of New York whereby the employment of

convicts at remunerative labour is prohibited, and free labourers are taxed that criminals may be supported in idleness? Is the Public Building at Philadelphia, or the Courthouse at New York city, or the Capitol at Albany, an illustration of the economical and beneficent application to public uses of the proceeds of taxation, the restoration to the people of more than is taken from them? And is there any evidence that waste and corruption will tend to decline as the funds at the disposal of legislators increase?

It is often said that the Government at least succeeds well in the management of the post office, but the claim will not bear the slightest examination. Its management shows every year a large deficit, which would be doubled with correct bookkeeping. Were it not for its monopoly, the Government would be driven out of business altogether if it made the slightest attempt to do business on business principles. The express companies would take the whole enterprise off the Government's hands, render equally good service to the community for two thirds what it now pays, and make a good profit for their own stockholders. They would, of course, have to cut off the \$20,000,000 or more now received by a subsidized press from the Government; but no

one not pecuniarily interested will contend that the productions of our press are, on the whole, of such a character that the public welfare is promoted by taxing the people for their gratuitous transportation. Many of these publications are notoriously scandalous and immoral. Let those who want them pay for them; let those who hold them pernicious be not compelled to contribute to their promiscuous dissemination. Some of the "Star Routes," too, might have to be abandoned; but let those who would maintain them read the testimony taken a few years ago in the malodorous "Star Route trials," the conduct of which, it may be remarked by the way, although the Government was completely defeated, was so expensive and scandalous as itself to require investigation.

Government at any cost is preferable to anarchy. Violence can be systematically repressed only by the sovereign power, and public order is essential to the protection of private rights. The property of the subject is therefore properly taxable by the Government; some of the income of the individual is taken from him in order that he may be secured in "life, liberty, and the pursuit of happiness." To a certain extent, and within bounds well settled by experience, there is general agreement that taxation is

necessary and just, in spite of the almost invariable wastefulness of governmental expenditure. When carried beyond those limits, it is equally well settled, taxation has ruined communities and even nations; nor is there anything in the form of our Government or the character of our legislators to make it probable that we shall be exempt from the usual consequences of extravagance.

CHAPTER XIV.

CONCLUSION.

IN one of those fine digressions by which Hawthorne often incidentally reveals the greatness of his genius, he describes his hero as having "that sense, or inward prophecy—which a young man had better never have been born than not to have, and a mature man had better die at once than utterly to relinquish—that we are not doomed to creep on forever in the old bad way, but that, this very now, there are the harbingers abroad of a golden era, to be accomplished in his own lifetime." As to the main point, Hawthorne continues: "May we never live to doubt it! As to the better centuries that are coming, the artist was surely right. His error lay in supposing that this age, more than any past or future one, is destined to see the tattered garments of antiquity exchanged for a new suit, instead of gradually renewing themselves by patchwork; in applying his own little life span as the measure of an interminable achievement; and

more than all in fancying that it mattered anything to the great end in view whether he himself should contend for it or against it."

The truth contained in this passage must ever be kept in mind by all who are interested in social reform. It may seem to those who have read the foregoing pages that their result is purely negative. The great problem is, to reduce the inequalities of wealth, to bring about such a distribution of the product of the community that those who now receive the smallest shares shall receive larger ones; and this book is made up of specious arguments intended to prove that every statute intended to transfer some of the wealth of those who have more than enough to those who have less must fail. The author contends that all attempts to compel either rich corporations or rich individuals to bear an increased part of the common burdens only aggravate the condition of the poor, and thus condemns the world to remain indefinitely in its present evil state—"to creep on forever in the old bad way." What is this but to shut the gates of hope upon mankind?

To the charge of disbelief in the success of the schemes for social reform now most in favour I plead guilty; but the assumption that progress is only possible through these schemes is prop-

erly met with an unqualified denial. It is not those who insist on resorting to measures proved disastrous by experience, but those who oppose the repetition of such blunders, that have the more rational hope for the future. England, that minute speck upon the globe, has during the last two generations made prodigious advances in wealth, advances in which the working people have participated. Their numbers have relatively diminished because many of them have risen into the middle class; but, according to Mr. Mallock's calculations, their average wages have during the century considerably more than doubled. Their income amounted in 1860 to as much as the income of all classes in 1800; it amounted in 1880 to as much as the income of all classes in 1850. The great factors in this advance have been two: the substitution of the forces of Nature for human muscle, and the abolition of innumerable taxes and restrictions on industrial freedom which had been established by Government on the pretense of promoting the public good. It may not be reasonable to anticipate any discovery comparable with that of the motive power of steam; but the progress of invention continues. That it would continue under a *régime* of socialism is doubtful. Government officers have little inducement to devote their time to the

necessary studies, and private inventors could not afford it, if the possibility of great gains were precluded. On the other hand, were the incubus of governmental waste and dishonesty, of legislative blackmail, of vexatious taxes, of perplexing restrictions, of official commissions, once removed, industry and inventions would respond with a bound, as they did in England fifty years ago.

No calm and rational man can doubt that if our Government would abstain from compelling its subjects to accept promises to pay as payment, and would cease to meddle with the established standard of value, the employment of capital would be extended and the compensation of labourers increased. The "currency problem" would be very soon settled by the bankers of the country. The enlightened, skilful, and patriotic action of these able men during the recent years of panic has saved the nation from bankruptcy; saved it not with the co-operation of the national Legislature, but in spite of its stupid and malignant opposition. If any one believes that the condition of the common people is improved by having Congress, rather than private enterprise, create and control the currency of the country, he must hold the belief in the face of a perfectly overwhelming mass of evidence.

The losses suffered by workingmen from reduced wages and lack of employment since 1892 are far greater than can be made up to them by all the plans for improving their condition by diminishing the wealth of their employers. It is of the essence of these plans that they be carried out by Government; to a great extent by the very body that by its ignorant perversity, its contemptible spite, and its narrow partisanship has spread disaster and misery throughout the land; the body whose action is watched with anxiety rising to terror by cautious capitalists and prudent men of business, while it constitutes the opportunity of reckless speculators, and which is seldom so well employed as in repealing its own mischievous statutes.

The face value of the stocks of the railways of the country is about five thousand million dollars, and that of the bonds some three hundred millions less. Seven tenths of these stocks pay no dividends; one fifth of the bonds pay no interest. Such frightful losses of income can not but curtail wages. Investors have become indifferent to profit if they can only find safety. But safety is exactly what is threatened by the prevalent tendency to enlarge the functions and increase the cost of Government. Many of our legislatures are a positive menace to property.

There are few inducements to construct new railroads in States where rates on existing roads are reduced and expenses increased by statute, without regard to income or obligations. There is little temptation to lend gold on bond and mortgage in communities where a majority of the people proclaim that such debts must be made payable in silver. How can prosperity return where the people assert their purpose to confiscate wealth, and legislatures carry confiscation into effect?

Men are now arranging their affairs with reference to the culmination of this theory of government. They fear that the twentieth century may be ushered in by a gigantic act of repudiation by the American republic. But while these fears have been chilling enterprise, destroying income, and reducing wages, our public expenditure steadily grows. The revenue produced by increasing and multiplying taxes is all spent; more offices are created, salaries raised, pensions granted, and indebtedness increased. Yet, if any serious attempt were made—and it never has been made—to show that the greater part of the wealth taken by our governments from their subjects is spent in such a way as to improve the condition of the common people so much as it would be improved if this wealth were

left in the hands of its producers, such attempt would result in miserable failure. Until the attempt is successfully made, the expectation of bettering the status of the poor by enlarging the functions of Government should be abandoned by every sincere reformer.

Undoubtedly the profuse expenditure of many wealthy persons for purposes deemed selfish or wasteful by large numbers is a cause of exasperation and discontent. On the other hand, the extravagant indulgence by many of the poor in alcoholic drink may seem to deserve reprobation. In neither case is there any ground for denouncing whole classes of people because of the misconduct of some of their members. If we could legislate against wicked rich people alone, or against bad uses of property by the rich alone, something might be accomplished; but no such discriminations are practicable. The law can take cognizance only of outward acts, and not of sentiments. If the bad rich people outnumbered the good rich people, it might seem desirable to take promiscuous vengeance—in the spirit of that Christian bishop who, according to the story, cried out in an assault on a town occupied chiefly by heretics: “Slay them all! God will know his own!” But the list of the known benefactions of the wealthy is so long, and the

evidence of their secret benefactions is so manifold, as to make it impossible not to believe that there are more good rich people than bad ones. While we may deplore the waste of wealth by the idle and vicious and selfish rich, it seems vain to express our disapproval by measures that will cripple the active and virtuous and unselfish rich, and with them those of moderate means.

Waste for waste, orgy for orgy, corruption for corruption, our legislators and their dependents and lobbyists can fairly rival our men of large fortunes, and to increase the present opportunities for blackmail and plunder would not improve the morals of the community. The vices of the rich may not lose their evil by losing their grossness; but the aspects of vice which manifest themselves about the halls of our rulers are at least no more attractive. Loud complaints arise from the occupants of these halls over the bribery and corruption which they suffer at the hands of unscrupulous corporations; the virtue of legislatures, it seems, is quite unable to resist the blandishments of licentious wealth. Our legislators apparently suppose that their weakness is nothing discreditable. They take it as a matter of course that if bribes are offered them they must accept, and they unblushingly inveigh against the wicked-

ness of their tempters. They occupy the position of that French deputy who, according to the story, told his constituents that the corrupt influences in the Chamber were so potent as to overcome even his own virtue.

No more grotesque attempt to arouse the righteous wrath of honest citizens was ever made than these appeals to the people by their chosen representatives. They cry out in public because of their outraged honour, but their private complaints arise from disappointed greed. They do not deny, but in their own sessions openly proclaim that they are venal. Doubtless the temptation of a large bribe is very great, and we know that genuine integrity is a rare thing among men. But at all events, if the virtue of legislators is so frail as to be unable to resist the present temptations, it can not be expected to withstand them when they are increased. The whole lesson of our legislative history is that the powers of such representatives as our system of government gives us should be restricted and not enlarged. They have been so unfaithful in a few things that it is folly to make them rulers over many things.

Moreover, it is of the very essence of ethics to substitute reason for authority, persuasion for force. It is better to induce men to act in par-

ticular ways by their own choice than to oblige them so to act by law. It is better to establish conditions of business that shall enable honourable and conscientious men to engage in it than by vexatious interference, inquisitorial taxation, and practical blackmail to throw it into the hands of unscrupulous speculators. There is no dearth of reforms which would command the support of nearly all public-spirited citizens. The list of abuses is long enough to occupy all the energies and to arouse all the enthusiasm of the most ardent friend of humanity. There is work enough to do in directions in which the support of the benevolent can be enlisted, work which can not be done unless this support is obtained, to make it in the highest degree unfortunate for the progressive impulse to be diverted to the advocacy of schemes that will encounter the unflinching opposition of great numbers of most intelligent and conscientious people.

No one can deny that, in the last resort, social improvement must come through the increase of integrity and honesty among men. No amount of mechanical ingenuity in the construction of laws will avail in the absence of this foundation. But there is little probability that honesty will increase when the principle of regard for property and respect for existing rights

ceases to be cherished. If we devote ourselves to arraignments of the social system and to plans for the redistribution of wealth by law, we inevitably undermine that sentiment of reverence that is the basis of integrity. It is like reading books that extenuate unchastity; we may not become unchaste, but the horror of unchastity is diminished, and we may at last cry out with Renan, "Perhaps, after all, chastity is a mistake!"

So long as a man stands in awe of the simple precept, "Thou shalt not steal," he will be upright and hate dishonesty. When he occupies his mind with arguments showing that it is not stealing to confiscate wealth acquired under existing standards of justice, because these standards are not ideal, he is in danger of falling. If the mass of our people were consumed with the desire for righteousness, and insisted on strictly honourable dealings, most of our evils would be quickly remedied, and prosperity would be continuous. Seeking first the kingdom of God, all these things would be added unto us. But the movement toward socialism has no tendency to promote a stern integrity. It signifies, to every one who joins in it, not that he should reform himself, but that he should restrain others from misconduct. Such restraint is doubtless neces-

sary, but self-restraint is for ordinary people the prime requirement. Ideals that do not make it prominent are dangerous ideals in a democracy.

A great responsibility rests on that class of our citizens which is both conscientious and cultivated. They have leisure to devote to the service of society, and they have the disposition to so devote it. To a large extent they are at present captivated by socialistic ideals, or at least inclined to resort to socialistic remedies. If the arguments above set forth are sound, every step in this direction is a step backward. As a complete system, socialism will not be established; civilization will collapse first. But the movement in that direction, even if eventually arrested, will leave ineradicable traces. It will leave laws that can hardly be repealed, institutions that will be permanently mischievous, debts that will burden children yet unborn. It will weaken the sense of personal responsibility while strengthening the spirit of envy; and the growth of this spirit is the greatest danger that threatens the future of the Republic.

THE END.

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